

ROYAL BANK OF CANADA



ANNUAL REPORT 1990

PART ONE

OPERATIONAL REVIEW



ABOUT THIS REPORT

This year's Annual Report examines Royal Bank's operations and financial performance in two parts.

This part, "Operational Review", discusses the Bank's progress in its major businesses during fiscal 1990.

Part Two, "Financial Review", presents the Bank's audited financial statements and a comprehensive analysis of its financial results.

If you did not receive Part Two and wish to, or if you would like additional copies of either part, please write or call:

Royal Bank of Canada
Investor & Shareholder Relations
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

Telephone: (514) 874-5841 Fax: (514) 874-7197

DATED DECEMBER 1990

DISCUSSION WITH CERTAIN SHAREHOLDERS REGARDING THIRD-WORLD DEBT

In early November, four shareholder groups — The Anglican Church of Canada, 600 Jarvis Street, Toronto, Ontario, M4Y 2J6; CONCACAN Inc., a corporate entity of the Canadian Conference of Catholic Bishops, 90 Parent Avenue, Ottawa, Ontario, K1N 7B1; The Pension Fund of the United Church of Canada, 85 St. Clair Avenue East, Toronto, Ontario, M4T 1M8; and the Sisters of Charity of Saint Vincent de Paul (Halifax), 150 Bedford Highway, Halifax, Nova Scotia, B3M 3J5 — filed identical shareholder resolutions with Royal Bank of Canada, for inclusion in the Management Proxy Circular, and for shareholder consideration and vote at the Bank's Annual General Meeting of Shareholders in January 1991.

The proposal was on the subject of the debt crisis in the Third World, and more specifically, sought the Bank's indication of "agreement with the principle that any further tax relief to Canadian banks on reserves against problem sovereign debt exposure should be in the form

of incentives to encourage reductions in principal and interest rates on outstanding debt of Third World nations which are crippled by a heavy debt problem." A supporting statement referred to a specific tax recommendation made recently by the House of Commons Standing Committee on External Affairs and International Trade.

The Management of the Bank, in accordance with relevant provisions of the Bank Act, declined to include the proposal in the Management Proxy Circular. However, senior management met with the Taskforce on the Churches and Corporate Responsibility, representing the filers of the proposal, for a broad discussion of the issues. As there was agreement on the importance of the matter, Management offered to make the following two statements available to the shareholders for their information and consideration. Subsequently, the filers of the original proposal withdrew it.

STATEMENT OF CHURCH SHAREHOLDERS

Over the past few years the churches have raised questions with management and shareholders concerning the Bank's part in sharing the burden of the Third World debt problem along with official bilateral and multilateral creditors. At the same time, we have pressed the Canadian government to respond in a spirit of justice and compassion to the plight of indebted nations in the Third World.

In June 1990, the House of Commons Standing Committee on External Affairs and International Trade produced an important all-party report, "Securing Our Global Future: Canada's Stake in the Unfinished Business of Third World Debt". The Standing Committee described the impact of the debt crisis for the world's poorest nations, and as well for the global family, in terms of "lost trade and employment; higher taxes; increased pressures on the natural environment; threats to the political stability of fragile democracies; increased violations of human rights, civil conflicts, and refugee flows..." It made recommendations concerning the role of the Canadian government, international financial institutions and commercial banks in addressing this problem.

Regarding the role of Canadian banks, the Standing Committee said that the banks now have considerable flexibility in disposing of their Third World loans without much further risk to themselves or their shareholders, as loan loss provisions currently are held against more than two-thirds of total Canadian bank exposure.

The Standing Committee also stated that the reduction in bank exposures has so far provided little debt reduction benefit to the debtor nations themselves, and that large scale reductions in outstanding principal as well as substantial interest rate relief are needed to make a decisive contribution to the economic recovery prospects of the indebted nations.

Those statements have been strongly disputed by Royal Bank, which cites successful negotiations of sizeable debt reduction with four countries under the Brady plan. However, we note that despite these efforts, in overall terms the position of Third World countries has not improved. Arrears on Third World debtor interest payments of those countries not addressed by the Brady plan have increased by almost 3 times the level recorded when the new official debt strategy was launched, to \$22 billion. The new lending envisaged as part of the Brady plan has not taken place. The net transfer of funds from impoverished nations to the developed world continues. The total amount of debt has continued to increase to a projected figure of US\$1.32 trillion in 1990.

STATEMENT OF THE BANK

The Management of the Bank has had detailed discussions of the problem of Third World debt with representatives of Church groups, confirming again our shared view about the importance of the issue. This dialogue underlines our full agreement that the international community — including debtor and creditor governments, the multilateral institutions (the International Monetary Fund, World Bank and regional development banks), and the creditor banks — must persevere in the search for, and implementation of ways to resolve the problem in a manner which helps to relieve poverty in the debtor countries and helps them return to creditworthiness. Management agrees that the issue must not "slip off the agenda."

Shareholders should know that the Bank's views on the matter remain essentially unchanged since they were set forth in a similar document circulated with the Management Proxy Circular one year ago. We will not repeat that material here, but will comment on developments since then.

It will be recalled that the major framework is provided by the "Brady" Plan, which includes debt rescheduling, debt reduction, new funds and the adoption of appropriate domestic economic policies in the debtor countries — all within the context of a case-by-case approach which recognizes the important differences between the needs of different borrower countries. The Plan includes acceptance that debt and debt-service reduction are essential ingredients in ensuring sustained progress towards creditworthiness and return to capital markets. To encourage the process, the financial resources of the IMF and the World Bank were to be used to support debt and debt-service reduction transactions.

The Brady Plan can now be credited with several important achievements. The IMF and World Bank moved rapidly to obtain consensus among their members and to create the mechanisms needed. Four agreements have been struck between the commercial banks and Mexico, the Philippines, Costa Rica and Venezuela. A fifth one, with Morocco, depends on the conclusion of an extended arrangement with the IMF. The IMF has also agreed in principle to support similar deals in Argentina, the Ivory Coast, Ecuador, Jordan and Poland.

The total face value of the first four agreements amounts to US\$72 billion. The debt reduction transactions involved total approximately US\$14 billion. The reduction in the interest burden is equivalent to an estimated further US\$11 billion decline in debt. Against these must be set an US\$8 billion increase in indebtedness to official creditors for collateral enhancement.

(continued overleaf)

(continued overleaf)

CHURCH STATEMENT (CONT.)

While there are other factors contributing to human deprivation in the Third World, the debt burden is of central importance. There clearly remains a major challenge to find ways to bring about an immediate increased pace and a vastly more beneficial reduction of both commercial debt and official debt than has so far occurred.

The Standing Committee therefore urged that "... the Canadian government should be more active in promoting commercial debt relief that benefits Third World peoples, not just in granting tax relief on bad loans made by our banks..." It referred here to the fact that Canadian tax laws permit banks to deduct from taxable income the amount of loan loss provisions up to 45% of exposure. It proposed that: "the current 45% ceiling on reserves against problem sovereign debt exposure eligible for tax purposes remain, but that ... banks be able to claim an additional tax loss equal to the difference between the 45% level already claimed and the amount of any discounts only when Third World loan assets are written down or sold in ways that reduce the burden on debtor countries..."

BANK STATEMENT (CONT.)

Thus the four agreements so far concluded result, effectively, in debt relief of some US\$17 billion. Such debt reduction has benefited debtor countries by allowing them to reduce interest payments, and has benefited creditors by improving the quality of remaining assets.

Participating countries have tackled major macroeconomic problems and implemented difficult structural reforms, so that there are now better prospects of increased investment, both domestic and foreign, and sustained economic growth.

Some areas of concern remain. One is that there has been a marked deterioration in discipline within the international system as many countries either failed to negotiate programmes with the IMF, or failed to adhere to them, once agreed upon. Argentina and Brazil are examples. This deterioration in discipline has been reflected in a sharp buildup of interest arrears to banks, governments and international institutions. These have increased to \$22 billion in the 18 months since the Brady Plan was announced. Some debtors seem to have concluded that there was no longer a need to meet their contractual obligations, apparently believing that these could eventually be settled at a much lower cost.

It is also true that some countries have little to gain from the current strategy because only a small share of their total external debt is owed to banks. Consequently, it is equally important to address the issue of official debt, and it can be cogently argued that official lenders have room to do more than they have done so far. One consequence of this, combined with the debt reduction efforts of the commercial banks, is that at the end of 1990 official creditors will have overtaken commercial banks as the largest creditor group in the 50 most important borrowing countries in the Third World and what used to be called the East Bloc.

The Brady Plan can make a significant contribution. Nevertheless the impact of the benefits of debt reduction should not be exaggerated. The fact is that debt serves as a popular scapegoat for much blame that should rightfully be directed elsewhere. The culprit in many, if not most, cases has been inappropriate economic policies in the borrower countries.

The experience of the 1980s has shown conclusively that success or failure in restoring economic growth depends less on the size of the debt burden and external shocks than on domestic economic policies. Countries which

Royal Bank told us that this proposal would be counter-productive, and we are certainly willing to take its position seriously. It is our belief, however, that the Canadian tax law under discussion is much more responsive to the concerns of the banks than to those of the debtor states. Our motive in supporting the Committee's recommendation, which was based on a proposal from the North-South Institute, has been to ensure that the tax concessions bring benefit to the debtors as well as to the banks.

We would therefore hope that the Bank would be willing to provide to shareholders its analysis of the proposal, and an overview of ways of resolving the debt problem and preventing further erosion of the position of the poor in the Third World.

We appreciate the Bank's willingness to continue to bring the problem of Third World debt to the attention of shareholders. The issue might otherwise slip off the agenda, given the fact that the Bank and its shareholders are now relatively well protected against default on Third World loans.

have responded quickly and have relied on policies favouring economic efficiency and competitiveness have managed to gradually grow out of their debt problems — South Korea, Malaysia, Indonesia and Taiwan are examples. By contrast, countries which have failed to adopt adjustment policies have seen both external and internal problems worsening over time.

It should also be noted that debt service outflows are not an impediment to growth for a number of heavily-indebted countries, simply because they have not serviced their debt. To put it bluntly, if a country is paying nothing, it has no "burden" of debt service. Yet these countries have shown no appreciable resulting improvement in their economic conditions.

Turning to the tax proposal recommended by the House of Commons Standing Committee on External Affairs and International Trade and urged upon the Bank by the Church shareholders, the following points should be made:

First, the proposal has been rejected by the Government of Canada, which has said it believes that changing the tax law in the manner suggested would likely have little effect, and that the proposal "would run counter to the broad tax policy objective of promoting and preserving tax neutrality. As a result, a bank could be penalized by being denied a legitimate deduction from income because of a loss, which "deduction" is currently available to all financial institutions on other loans regardless of their origin".

Second, the Church shareholders presented the proposal as an "incentive". In fact, it would be a penalty. The effect of the proposal, if adopted, would be to prevent the Bank from deducting from its income for tax purposes an actual loss (when a loan is sold at discount). It is a basic and universal principle of business income taxes that actual losses reduce taxable income, and adoption of the proposal would breach this principle. Accordingly, the Management of the Bank believes it would be derelict in its duty to shareholders if it lent approval to such a proposition.

It must be stressed that any disagreement between the Bank and the Church shareholders is about means, rather than ends. We are fully agreed on the importance of seeking more rapid progress towards resolution of the Third World Debt problem, and the consequent return to creditworthiness of the debtor countries. The Bank remains committed to working diligently to this end.



WITH ASSETS OF \$125.9 BILLION, Royal Bank is Canada's largest financial institution and the third largest bank in North America. It provides banking and related financial services to more than 7.5 million customers through its 1,617 Canadian branches and specialized business centres and 3,127 banking machines—one of the largest networks in the world. ▼ Outside Canada, the Bank's global reach is achieved through more than 125 business units operating in 32 countries. These units provide corporate and institutional clients with an extensive range of Corporate, Investment and Private Banking services. Foreign exchange and money market operations are located in key international financial centres. Royal Bank maintains more than 5,300 active correspondent relationships with leading banks in more than 180 countries around the world. ▼ Investment banking activities are consolidated within RBC Dominion Securities, Canada's largest investment dealer. Another subsidiary, Royal Bank Investment Management Inc., provides portfolio and funds management services to institutional and private clients. ▼ Royal Bank was chartered in 1869 and maintains its corporate head office in Montreal. Headquarters functions are located in Montreal, Toronto, Winnipeg and Calgary.

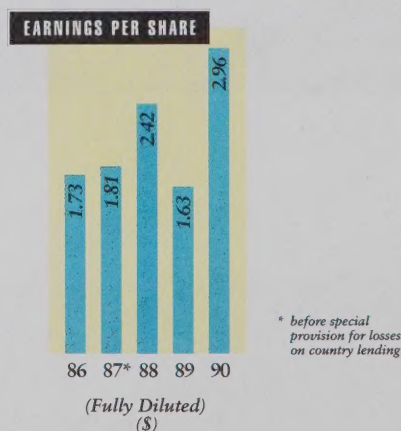
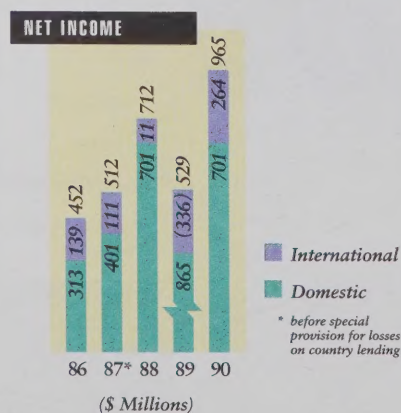
CONTENTS

<i>Financial Highlights</i>	2
<i>Operating Highlights</i>	3
<i>Message to Shareholders</i>	4
<i>Customers</i>	8
<i>Staff</i>	16
<i>Community</i>	20
<i>Directors</i>	24
<i>Board Committees</i>	25
<i>Executive Officers & Network</i>	26
<i>Shareholder Information</i>	32

FINANCIAL HIGHLIGHTS

	1990	1989	1988	1987*	1986
Earnings Data (For the year ended October 31)					
Net income (\$ millions).....	\$ 965	\$ 529	\$ 712	\$ 512	\$ 452
Return on assets.....	.79%	.47%	.68%	.51%	.46%
Return on common shareholders' equity	17.5%	10.1%	17.2%	11.5%	10.9%
Balance Sheet Data (As at October 31) (\$ millions)					
Total assets.....	\$125,938	\$114,660	\$110,054	\$102,170	\$99,607
Loans	92,694	83,239	77,781	69,293	65,934
Deposits	99,168	89,186	87,238	85,811	84,253
Debentures.....	2,299	2,118	2,000	1,521	2,068
Shareholders' equity	6,453	5,782	5,087	4,364	4,662
Capital Ratios – BIS Risk-Based (As at October 31)					
Tier I capital ratio	5.0%	4.8%	4.2%		
Tier II capital ratio	2.4%	2.4%	2.4%		
Total capital ratio	7.4%	7.2%	6.6%		
Common Stock Data (For the year ended October 31)					
Earnings per share					
Basic.....	\$ 3.00	\$ 1.64	\$ 2.52	\$ 1.89	\$ 1.84
Fully diluted	2.96	1.63	2.42	1.81	1.73
Dividends per share.....	1.16	1.10	1.04	1.01	1.00
Share Price: High.....	25.69	24.38	18.25	19.44	17.63
Low	19.75	16.88	13.06	12.81	13.75
Close – October 31.....	20.75	24.25	18.00	13.88	16.63
Book value – October 31	18.10	16.16	15.58	14.20	17.07
Number of: (As at October 31)					
Common shareholder accounts	80,212	81,901	87,613	88,814	89,752
Common shares outstanding (thousands).....	293,267	286,674	265,300	236,010	213,044
Employees – full time	42,910	41,777	40,255	37,807	38,379
– part time	13,979	12,692	11,478	9,970	9,298
Service delivery units.....	1,665	1,607	1,560	1,517	1,496
Automated banking machines	3,127	2,324	1,628	1,336	1,170

*Earnings results for 1987 are expressed before the special provision for losses on country lending. After the special provision, the Bank reported a net loss of \$288 million, or \$1.60 per common share.



Emphasis on Personal Banking translated into strong gains in consumer deposits and continued improvement in market share.

The Bank's RSP portfolio, which includes deposits and RoyFund mutual funds, increased during the year by 25 per cent.

The number of "electronic connections" with corporate clients increased 30 per cent. Royal Bank payroll service products are used to pay one in 10 Canadians.

A two-for-one split in Royal Bank common shares took place on February 9, 1990.

Corporate treasurers from around the world ranked Royal Bank foreign exchange services tops among Canadian banks and fifth globally.

RBC Dominion Securities posted the highest profits in the industry in 1990. It acquired a 70 per cent interest in Marcil Trust Company and formed a real estate corporate finance partnership.

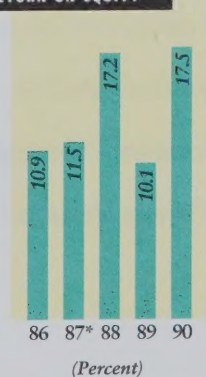
Kitcat & Aitken, our London-based subsidiary firm of stockbrokers, was closed in May due to chronic overcapacity in the UK equities market and little prospect of achieving acceptable returns.

A binding agreement was signed with International Trustco Inc. in June for the purchase of its total business operations pending regulatory approval. The firm provides fiduciary services to corporations and institutions.

Our 50 per cent interest in National Mutual Royal Bank was sold in April to the Australian and New Zealand Banking Group. Clients in Australia continued to be served through our Sydney office.

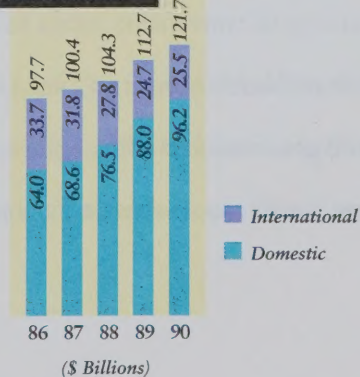
In October, Royal Bank acquired the exclusive Canadian licence to operate EDICT, a leading electronic data interchange (EDI) system provided by AT&T Istel Limited.

RETURN ON EQUITY

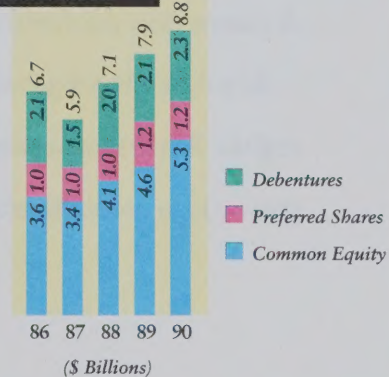


* before special provision for losses on country lending

AVERAGE ASSETS



CAPITAL FUNDS



IN 1990, ROYAL BANK recorded solid results from its core businesses, further strengthened its capital base and built on its position as Canada's leading provider of bank-based financial services.

These accomplishments were achieved in a year marked by deteriorating economic conditions in Canada and a number of developments both outside the country and at home that will have far-reaching implications for some time to come.

Some of these developments were positive, others less so. The reunification of Germany and the

political liberalization of Eastern Europe were welcome events. In contrast, the dark clouds of confrontation in the Persian Gulf threatened to dislocate an already-fragile global economy.

Canada faced its own unique problems: the failure of the Meech Lake Constitutional Accord, mounting budget deficits at all levels of government and political dissension over the Goods and Services Tax.

In September, the federal government finally announced its long-awaited proposals for financial services reform – the first step in the much needed overhaul of Canada's financial services industry. The prospect of broadened powers for all financial institutions is a healthy development. For Royal Bank, this will mean new opportunities in the areas of insurance, data processing, real estate and trust services.

However, the government's decision to permit the narrow ownership of financial institutions which will have equal powers with banks, even after they reach the size of our largest banks, was a disappointment, as was the proposal that banks be prevented from retailing insurance products and leasing automobiles through their branch systems. In our view, the latter two decisions deny consumers the advantage of convenient access to these services at lower costs.

At a time when a growing number of North American banks face pressure on both profits and capital, Royal Bank ended 1990 well positioned to withstand the weak economic environment. Through greater loan diversification, rigorous credit assessment and a conservative approach to highly leveraged



Allan R. Taylor
Chairman & Chief
Executive Officer

transactions and commercial real estate lending, the Bank has built a strong credit risk profile with solid capital underpinnings.

These accomplishments have resulted in one of the highest credit ratings among North American banks and a tangible contribution to the Bank's bottom line.

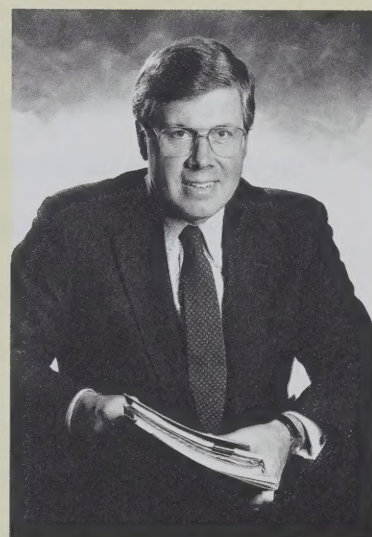
Net income for the year was \$965 million, an increase of 82 per cent over last year's figure. As shareholders may recall, last year's financial results were adversely affected by a \$1.1 billion addition to the Bank's country risk provision to cover possible losses on loans to less developed countries (LDCs). In 1990, no addition to this provision was required.

In total, the Bank has set aside provisions covering 72 per cent of its LDC exposure, one of the highest provisioning ratios among international banks. Through loan sales and internal capital generation, our net LDC exposure was reduced at the end of 1990 to 21 per cent of common equity from 27 per cent at the end of 1989. Our net LDC loans continue to reflect secondary market values.

Continuing emphasis on our consumer business translated into strong gains in consumer deposits. In 1990, these increased by \$6.7 billion to \$60.6 billion and now account for 61 per cent of our total deposit base. This was a positive development because these deposits tend to be less expensive and more stable than wholesale funds.

On the expense side, non-interest expenses increased 12 per cent over last year's figure to \$3.3 billion. The increase reflects continued investment in our branch and electronic networks, new strategic initiatives and strong emphasis on staff training. Our productivity ratio, which measures the cost of generating each dollar of revenue, continued to be one of the best among North American banks.

At the end of the year, total assets stood at \$125.9 billion, making Royal Bank the third largest bank in North America. Total asset growth of 10 % in 1990 was accompanied by a continuing positive shift in loan mix, with lower risk consumer loans now accounting for 46 per cent of total loans.



*John E. Cleghorn
President & Chief
Operating Officer*

Return on assets was .79 per cent, short of our target of .90 per cent. However, in light of the difficult business environment that prevailed throughout the year, this was a solid accomplishment.

Return on common shareholders' equity, at 17.5 per cent, was the highest among Canadian banks in 1990 and just short of our long-term goal of 18 per cent.

A more detailed financial review is published in Part Two of the Annual Report. This year's Annual Report has changed significantly from last year's format. The Operational Review and Financial Review, previously published as one document, are now published separately. This has enabled us to advance distribution to shareholders and eliminate the duplication that existed with our Annual Statement which is now included in the Financial Review.

The new format adopted in this Operational Review enables us to review the Bank's activities over the year within the context of our relationship with customers, our staff and the communities we serve.

As you will see, the Bank's operating performance showed progress in 1990 on most fronts. We further refined our customer focus and moved ahead in the implementation of our long-term strategic goals. For Royal Bank, an absolutely top priority continues to be improvement in the quality of our service.

There is no doubt that quality of service will be the major competitive arena in the 1990s, more so than product innovation and pricing. The fight for customer loyalty and market share will become increasingly intense as more players enter the financial services sector on various fronts and customer expectations continue to grow.

In the past two years, we have made genuine progress in our quality of service initiatives. Our formal customer surveys, which are carried out regularly, tell us our customers are more satisfied now than in the past. But we are not resting on our laurels. A senior bank officer has been made responsible for our service quality group, which brings definition and focus to service initiatives at every level.

Royal Bank has some distinctive strengths that set us apart from our competitors. We have an extensive and well-developed network of branches and other customer service units which, like our system of automated banking machines, is the largest in North America. We have a sizeable customer base and a substantial share of market in most sectors. And we are the leader in developing and implementing bank-related technology.

Our greatest strength is our people. Throughout this report, you will find ample evidence of what we mean when we say that it is our staff that provide us with our competitive edge. We are immensely proud of the leadership Royal Bankers demonstrate – not only in the marketplace but also in the community.

We now have more than 56,800 staff members. Well over half of them, about 39,800, work on the retail side of the Bank where we are concerned with the needs of Royal Bank's Independent Business and Agriculture customers as well as millions of individual customers. Our staff is critical to the premium we place on customer satisfaction and the banker-customer relationship.

Relationship management is central to our quality initiatives on the corporate side of our business where we are putting greater emphasis on new sources of revenue. Our account managers, product specialists and systems experts are crucial to a strategy that takes advantage of our leadership position, for example, in rate risk management and investment banking.

We intend to increase our lead among banks in the investment management field at both the institutional and individual client level by increasing the networking activities of our subsidiary, Royal Bank Investment Management. RBC Dominion Securities provides a solid foundation to our investment banking business.

We are well positioned to be a major participant in the anticipated rapid expansion of the market for mutual funds. We already have well-developed funds management strengths and the distribution capability of the branch network where we now have more than 3,500 registered representatives.

Our vision for the 1990s is to be the leading provider of financial services in the Canadian marketplace and the dominant Canadian bank in our strategic international markets. The combination of emerging businesses already under way, new business initiatives flowing from deregulation and our strong position as Canada's leading bank provide great opportunity for enhancing shareholder value.



Allan R. Taylor

Chairman & Chief Executive Officer



John E. Cleghorn

President & Chief Operating Officer



With 3,127 units, Royal Bank now has the largest proprietary banking machine network in North America. An increasing number of them are located at sites not serviced by branches, thus further extending our reach into the community.

AT THE END OF the fiscal year, one in four Canadians, more than 7.5 million people, counted on Royal Bank for their personal banking needs. Meeting the expectations of these customers, along with the more than 320,000 business clients we serve in Canada and 32 other countries, is Royal Bank's single most important challenge and a core strategy in our drive to becoming the leading provider of financial services in Canada in terms of quality, growth and profitability. ▼ In 1990,

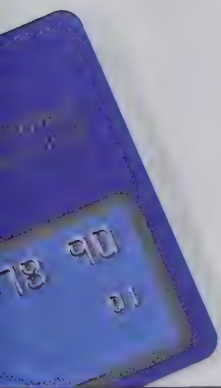
encouraging progress was made in our efforts to improve service quality which translated into increased market share, particularly in Retail Banking. ▼ Retail Banking is one of Royal Bank's major strengths. It accounted for two-thirds of our profits in 1990, a level of performance that gives momentum to our strategy and the quality of service initiatives that are central to it. ▼ Quality of service is our first priority; market segmentation is an important part of our strategic plan to achieve it and key to providing customers with the level and quality of service that best meet their expectations. ▼ Segmentation also enables us to respond to those needs with the right product and pricing.



Quality Service



Professional modern dancers have been graduating from Contemporary Dancers Inc. in Winnipeg for 27 years. Two years ago, Evelyn Polish, general manager, moved the school's account to Royal Bank. "It was incredible. Everything was taken care of in two days and the service has been outstanding ever since." Contemporary Dancers employs 25 people and sponsors the Festival of Canadian Modern Dance.



For many Royal Bank customers, routine banking transactions – which can be made at the branch counter or banking machine – are not enough. These clients expect and require the more personal attention across a broader spectrum of products and services that relationship banking provides.

Continued growth in Private and Executive Banking in 1990 is evidence of the demand for relationship banking services. To support these services and to provide customers with appropriate venues, we increased our Executive and Private Banking centres in 1990 in Canada from 17 to 32.

International clients have access to a further 17 Private Banking facilities located in key cities internationally.

Introducing relationship banking to our Personal Banking clients has also required substantial investment in the redesign of branches to create appropriate service areas: banking machines to provide easy 24-hour access, sit-down banking for investment and borrowing transactions and Customer Service Representatives to handle less complex transactions at the counter.

The Bank's emphasis on Personal Banking services translated into strong gains in consumer deposits and continued improvement in our market share. These deposits have increased 13 per cent annually since 1987 and now account for 61 per cent of the Bank's deposit base. The average ratio for the other five major Canadian banks is 48 per cent. A key factor in this growth is our Royal Money Maker account. Introduced in 1987, it now accounts for deposits of \$14 billion with 60 per cent of the balances at \$60,000 or more.

Despite intense competition from other financial institutions, we were able to increase our dominant share of the residential mortgage market without experiencing the serious delinquency problems some financial institutions began to face later in the year.

Our card services, a profitable and growing segment of our payment and consumer loan business, also performed well in 1990. Despite the entry of other banks, we maintained our 50 per cent share of the Visa Gold card market and we also held our market position in Visa Classic with more than four million card holders.

Our relationships with Independent Business customers are also managed through Retail Banking. Although we are the market leader in the independent business sector, plans were finalized in 1990 for a significant three-year investment in technology, equipment and training to protect and enhance our business base for the long-term.



Despite intense competition from other financial institutions, we were able to increase our dominant share of the residential mortgage market without experiencing the serious delinquency problems some financial institutions began to face later in the year.

In 1990, we continued to lead the agricultural sector with a 34 per cent share of the market. Our Bankers and agrologists worked closely with an increasing number of Canadian farmers who represent a critical force in the country's economy.

Continuing deregulation of the financial services industry has provided new product opportunities in such areas as retirement income, investment management and mutual funds. Subsidiaries and affiliates that provide these and other products, such as RBC Dominion Securities, Royal Bank Investment Management, Royal Bank Mutual Funds Inc. and International Trust Company, with whom we signed an agreement last September, benefit from Royal Bank's strong distribution capability.

Our RSP portfolio, which includes deposits and RoyFund mutual funds, is a good example of the synergies that can be achieved through networking arrangements. This portfolio increased 25 per cent over the year to \$9.7 billion.

Funds management is provided by Royal Bank Investment Management Inc.,

already the largest and most profitable bank-controlled investment management firm in the country with assets under management of \$4.4 billion at fiscal year-end.

We invested heavily in our Canadian delivery network which is now the largest in North America. It comprises 1,617 branches and other customer service units, 3,127 automated banking machines and 22,500 merchant point of sale terminals, all served by a highly efficient data processing network.

Our electronic network processed 230 million transactions last year, providing round-the-clock convenience, seven days a week. An increasing number of our banking machines are located at sites not serviced by branches, further extending the Bank's reach into the community.

The success of our Retail business is a clear indication our commitment to service excellence is paying off. We have made – and continue to make



Serving one in four of independent businesses, Royal Bank is Canada's leading financial institution for small businesses. As part of our service to this key market segment, the Bank has published the first two books of its revised information series – "Starting Out Right" and "The Source Book".



Consolidating our position as Canada's leading RSP bank, we are broadening our capability to service both personal and corporate pension management needs. We continue to outpace other banks in this rapidly growing market. Our portfolio increased 25 per cent over 1989 to \$9.7 billion.

– a considerable investment in our people through staff training and career development. We want to attract and retain people who have energy and talent and who are committed to providing clients with the highest quality of service.

VISION 2000



Looking to the future, Royal Bank has created a unique mobile exhibition that so far has visited Montreal, Toronto, Halifax, Calgary and Vancouver. Vision 2000 is an exciting walk-through conference featuring the Bank's best people, products and technology.

THE SAME ECONOMIC realities that imposed pressures on our clients in 1990 also presented Corporate Banking with additional challenges in terms of credit assessment. Increasingly, the focus is on quality assets and better spread management rather than market share. ▼ In this regard, we were well served by the centralization of our Financial Institutions' credit risk management function and the decision to limit our involvement in highly leveraged transactions and commercial real

estate loans – particularly in the United States. Generating detailed risk profiles on both individual clients and industry sectors internally has enabled us to better monitor our loan portfolio and assess business opportunities. ▼ The capital adequacy guidelines produced by the Bank for International Settlements require increased focus on pricing in line with target returns and on effective balance sheet management. In 1990, the Asset Management Group was strengthened, enhancing the liquidity and flexibility of Corporate Banking's portfolio through loan syndications, asset sales and off-balance sheet product development.



Quality Assets



Jack W. Charles is Chairman and Chief Executive Officer of Arrow Transportation Systems Inc. of Vancouver. Mr. Charles views Royal Bank as more than a bank: "They have also been our staunch supporters through good and bad times for more than 60 years." With annual sales in excess of \$75 million and more than 700 employees, Arrow Transportation provides specialized trucking, marine and materials-handling services to Western Canada.

In Canada, our early thrust into Electronic Business Banking has resulted in a clear lead in the electronic delivery of information to corporate clients. We continued to build on last year's rapid growth, increasing the number of these "electronic connections" by 30 per cent. Our payroll service product is used by business to pay one in 10 Canadians.

Royal Bank Leasing Inc., the new name for Roylease Ltd., provides equipment leasing as an alternative financial service. In 1990, leasing sales expertise was broadened to include Account Managers throughout

Corporate Banking and will soon include Independent Business managers.

Corporate Finance units in Toronto and Calgary concentrated on fee-generating financial advisory mandates and will continue this thrust in 1991. A new London office will strengthen the marketing of this group's services in Europe.

Royal Bank Capital Corporation, our venture capital subsidiary, provides equity and subordinated debt to successful growth companies and management buyout opportunities. During the year, the group opened an office in Vancouver, supplementing its offices in Toronto and Montreal.

The Financial Institutions group continued to be the leading provider of Canadian banking services through relationship management to financial institutions worldwide. This group's Client Service Centre in Toronto provides comprehensive account services and support to more than 3,500 clients.

Our 1990 Canadian survey on quality of service produced very strong performance ratings for Corporate Banking Account Managers. Ninety-eight per cent of

our clients said they would recommend Royal Bank to other companies. The response to a similar question in our US survey was 94 per cent!

Business development activity in the United States was enhanced with the opening of an office, our 10th in that country, in Buffalo to develop cross-border trade opportunities.

Royal Bank's strong presence in the United States and the steps taken to focus our European, Asian and Latin American operations on our core Corporate Banking and Treasury businesses contributed to enhanced returns from our international operations in 1990. We are well positioned for Europe 1992. A subsidiary, licensed as an authorized banking institution, will enable us to operate throughout the European Community.

No other Canadian bank matches our geographic coverage in Europe and Asia or our strength in rate risk management products, investment management, investment banking, private banking, correspondent banking and trade services.



In October, Corporate Banking, which has pioneered Electronic Data Interchange (EDI) in Canada, acquired the exclusive licence from AT&T Istel to operate a system allowing clients and suppliers to conduct transactions, using the Royal Bank network as their third-party system.

Treasury's role within the Bank is to provide funding and to manage the associated liquidity and market risks. Concurrently, the group supports the Bank's various business divisions with a wide range of market-related products.

We responded to increased pressures on the profitability of our corporate foreign exchange business by broadening the range of products provided to our existing customer base and upgrading the quality of service provided at the retail level. Future profitability will come from efficiencies derived from new technology and through continued emphasis on astute risk management.

The strong performance of our money market units reflected higher trading volumes and the timeliness of funding initiatives.

We completed the structural integration of our investment banking activities within RBC Dominion Securities some time ago and the working relationship between our organizations is now well-established at both the retail and corporate level.



Although we take a relatively conservative approach to the management of foreign exchange, we have become a notable factor in the world's foreign exchange markets. Each day, our dealing rooms in Toronto, New York, London and Tokyo trade some \$11 billion in foreign exchange.



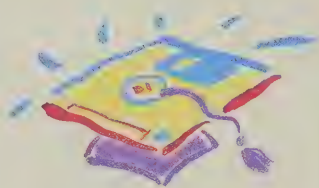
Technology plays a crucial role in virtually every facet of our business. It is a valuable tool in improving the quality of our products and expanding our range of services as well as the volume of transactions we handle. Typically, we process about 4.5 million cheques every day.

It seemed likely by year-end that we would receive permission from the US Federal Reserve Board to underwrite cross-border corporate equity issues sometime in 1991. However, our ability to transact this business will be seriously hampered if the current 10 per cent ceiling on so-called "ineligible transactions" remains. Resolution of this issue in favour of Canadian bank-owned investment dealers will become critical when both Canada and the United States adopt a Multi-Jurisdictional Disclosure system in 1991.

Outside Canada, chronic overcapacity in the UK equity market led to the closing of Kitcat & Aitken. Despite being one of the lowest-cost producers in the London market, we could see no prospect of achieving acceptable returns from this business in the foreseeable future.

RBC Dominion Securities ended 1990 on a successful note. Profits were the highest in the industry aided by the firm's stringent cost controls. The

firm was the industry leader in almost all segments of its business, showing particular strength in Corporate Finance. Its mergers and acquisition business was ranked first in Canada in volume terms and 11th in the world on a cross-border basis. In June, RBC Dominion Securities acquired a 70 per cent interest in Marcil Trust Company, a small, highly regarded trust company specializing in real estate corporate finance.



Our customers are best served by well-trained, knowledgeable employees. The investment in training Royal Bank's most valuable asset, its people, amounted to \$74 million in 1990, including salary costs. More than 32,000 employees participated in a wide variety of training programs.

SUCCESS IN TODAY'S financial services environment demands a competitive edge. Royal Bank's edge stems from the quality of our people and their determination to provide the best service in the business. ▽ Our team consists of 56,889 Royal Bank men and women – 42,910 full-time and 13,979 part-time – who work in Canada and around the world. ▽ On any given day throughout the year, more than 10,000 Customer Service Representatives form our front line of

service to Personal Banking customers; more than 1,800 Account Managers provide professional financial expertise to Corporate and Independent Business clients; technological breakthroughs are uncovered by our 1,500 systems people. The list of Royal Bankers in action goes on. ▽ Attracting, developing and keeping quality people is the foundation to building our solid team. In fact, the concept of "quality people" is firmly entrenched as one of our five strategic corporate values. The others are quality service, quality leadership, quality assets and quality earnings. Each relies on the others; but without quality people, none are achievable.



Quality People



Josée Asselin is a Personal Banking Services Officer in Montreal. Having been with the Bank for 17 years, Josée brings a wealth of experience to her new front-line position, as well as a firm belief in the importance of helping her clients. "It's very gratifying when a customer appreciates good service and when the right information improves their financial position," she says. "But it's even more gratifying when they also thank you for your help."



Rising service expectations among our customers and an increasing need for more sophisticated financial products for both Personal Banking and business clients are placing special demands on our employees. This is precisely why Royal Bank places such a strong emphasis on employee training – from orientation to ongoing career development.

As evidence of this keen focus, an unprecedented number of Royal Bankers, more than 32,000, participated in various training programs last year at an investment of \$74 million, including the salary

costs of trainees. Developing highly skilled, competent staff in all areas is a critical objective and crucial to meeting our client needs.

Like any business, Royal Bank competes to attract and retain quality employees. We are responding to this ongoing challenge by striving to create a workplace where our people feel they are among the best there are. This aim was recognized once again in 1990 by a respected national business publication which listed Royal Bank as the only major bank in the top-100 best companies to work for in Canada.

In addition, we continue to explore, develop and implement innovative compensation programs that offer employees attractive performance incentives, recognition of individual and team accomplishments and other important personal benefits.

Our approach to compensation has now established a strategic link to bottom-line performance through the Quality Performance Incentive program

(QPI). First introduced in 1985 as incentive pay for senior managers, the program now encompasses eligible staff at all levels of the Bank. In a very tangible way, financial reward through QPI puts the power of personal commitment behind both individual and team accomplishments.

The Royal Bank Employee Savings and Share Ownership Plan (RESSOP) is another key benefit. This Bank-sponsored savings program enables our people to benefit as shareholders from the Bank's success. A portion of each employee's contribution is matched by the Bank in the form of Royal Bank shares. Approximately 29,000 staff, or more than 70 per cent of all eligible employees, belong to RESSOP. With this kind of stake in Royal Bank, our employees' interests are very much aligned to the best interests of shareholders and the Bank at large.

Recognition of service excellence provided by individuals and teams reinforces the Bank's keen focus on quality service. This is precisely why our Special Achievement Program was introduced in 1988. Each year, thousands of Special Achievers are recognized across our network through this vital program.



Joe Frank's clients often commend his outstanding service and professionalism. The Fraser Valley Corporate Banking Account Manager received a Special Achievement Award this year as part of a program begun in 1988 to reward exceptional accomplishment among our employees.

Listening to our employees is an integral part of Royal Bank culture. A key way in which we seek feedback is through our Employee Attitude Survey. Significantly, 94 per cent of the respondents in last year's survey said they were proud to be associated with Royal Bank.

We have also learned that it makes good business sense to listen to our employees. Our Staff Suggestion Program rewards those who discover innovative ways to improve our products, systems and quality of client service. They also benefit our bottom line. Over the next three years, the Bank expects to realize more than \$25 million in increased revenues and reduced costs from suggestions made last year alone.

Royal Bank recognizes that the needs of employees today are much different than a generation ago. With the emergence of more dual-income and single-parent families, new types of work arrangements are needed to help employees balance their responsibilities at home and at the office. We are taking a pro-active approach in this area and are working hard to develop effective policies and support

programs for Royal Bankers and their families.

We are committed to the principles, goals and objectives of Employment Equity. Yet, despite significant gains in recent years, we recognize that much more must be done to improve the representation of women and visible minorities in upper management, as well as aboriginal groups and people with disabilities at all levels – and we are determined to do so.

Employment Equity Committees are now fully functioning throughout the Bank's field units. These committees are mandated to provide guidance and identify initiatives to help us reach our overall Employment Equity goals.

With all of these programs and policies, Royal Bank is working to maintain our lead as Canada's leading bank through the efforts of quality people. This focus gives us a competitive edge. It translates into our most

distinguishing characteristic – loyal, dedicated and highly skilled employees striving to provide our customers with the best service possible.



Elizabeth Trotter and Valerie Lebel share an Account Management position in Corporate Banking's Multinational division in Toronto. The pair are among 150 job-sharing teams at the Bank. Job-sharing is one initiative in our drive to attract and keep valued employees.



The Staff Suggestion Program, which invites employee ideas on efficiency, quality service and revenue generation, created a three-year benefit to the Bank of \$25 million in 1990. So valuable is the program that we have now increased the top award for successful ideas to \$25,000 from \$10,000.



Royal Bank is a founding member of the IMAGINE campaign to promote public awareness of charitable giving and volunteering. IMAGINE's Corporate Program grew in 1990 to include more than 180 "caring companies" — those donating at least one per cent of average pre-tax profits.

IN POWELL RIVER, British Columbia, 20 Royal Bankers volunteered more than 3,000 hours to 30 different organizations. In Port Perry, Ontario, during their lunch break, our staff delivered hot lunches to senior citizens. Another group of Royal Bankers, in this case retired and operating through the Canadian Executive Service Organization (CESO), used their business expertise to support native people in their efforts to become more self-sufficient. ▼ These examples are typical

of the many ways that our staff contributed their own free time to worthwhile community activities across the country in 1990. We are extremely proud of the collective efforts of our staff and the countless thousands of hours they devote to making their communities friendlier, healthier, better places in which to live. We believe their efforts represent the kind of leadership — extended into the community — we are striving to encourage in everything we do. Many of our staff devoted an enormous amount of their own time in 1990 helping various non-profit organizations. These included service and recreational clubs; charitable, fraternal and church groups; social



Quality Leadership



Joining the Bank in Jamaica

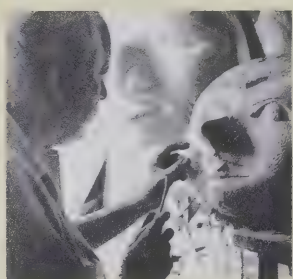
20 years ago, Yvonne Blackwood moved to Toronto in 1976, where she is now a Personal Banking Manager. Starting day-care centres, working with black youth and sitting on the boards of the Children's Aid Society and the Canadian Multiculturalism Advisory Committee exemplify Yvonne's deep community involvement. "Once you see what's needed," she says, "it's very difficult to back away."



agencies and community organizations; health, welfare and educational institutions; and amateur sports.

We share with our staff a strong commitment to promote and support the well-being of the communities we serve. We believe philanthropy is part of any large corporation's social responsibility. While the educational, social and cultural programs that a community deems essential are partially funded by the public sector, increasingly it is left to the private sector to bridge the funding gap.

For many years, Royal Bank has been among Canada's largest corporate donors. We are a signatory



Internationally acclaimed sculptor and craftsman, Bill Reid, was the recipient of the 24th annual Royal Bank Award for outstanding Canadian achievement. Of both Haida and European descent, Bill Reid focussed international attention on native Canadian art.

to the "one per cent commitment" for Canadian corporations advocated in the IMAGINE public awareness campaign. Royal Bank is a founding sponsor of IMAGINE and, in September, Allan R. Taylor became volunteer chairman of its Corporate Program. Our "one per cent commitment" resulted in donations to education, cultural activities, health and welfare, community causes, federated appeals and amateur athletics of \$10 million in 1990.

Our commitment to the community includes an active consumer information and personal money management program. Building on "Your Money Matters", a six-publication series that deals with personal and family money management, we re-published "Looking After Your Money" in 1990 aimed at helping youngsters develop sound money habits. We also expanded our "Straight Talk" series of publications giving useful background on banking services.

Sharing worldwide concern for the environment, Royal Bank adopted a formal environmental policy in February. We also implemented a number of measures designed to make our operations more "environmentally friendly". These ranged from revising our lending policies to recycling approximately 1000 tons of paper over the past year.

Our involvement in environmental activities in 1990 also included a major contribution to the World Wildlife Fund to finance a new centre for rain forest studies in Guyana. This unusually large debt-for-nature donation put to productive use the Guyanese dollar equivalent of \$881,000 in a blocked-fund deposit in the Guyanese Central Bank.

Our involvement in community affairs reflects our belief that there is no essential difference between what is good for the community and what is good for those who live in it – including the Bank. Our success is linked with that of the communities we serve.



To help Canadians translate their concern for the environment into action, Royal Bank sponsored the production and promotion of "Home and Family Guide: Practical Action for the Environment." More than 20,000 copies of the book, published by The Harmony Foundation of Canada, were sold in 1990.

CONTENTS

Directors 24

Board Committees 25

Executive Officers & Network 26

Shareholder Information 32

as of October 31, 1990

Allan R. Taylor Toronto <i>Chairman and Chief Executive Officer</i> Royal Bank of Canada	John E. Cleghorn Montreal <i>President and Chief Operating Officer</i> Royal Bank of Canada	Sir James Ball, M.A., Ph.D. London, England <i>Professor of Economics</i> London Business School	Ian A. Barclay Vancouver <i>Associate</i> McQuaid & Associates Consulting Ltd.	G.H. Blumenauer Oakville <i>Chairman of the Board</i> Otis Canada, Inc.
Robert W. Campbell Calgary <i>Retired Chairman</i> Canadian Pacific Limited	Robert M. Chipman Winnipeg <i>Chairman</i> The McGill-Stephenson Company Limited	Ronald L. Cliff, C.M., C.A. Vancouver <i>Chairman</i> BC Gas Inc.	George A. Cohon, C.M., B.Sc., J.D. Toronto <i>Chairman, President and Chief Executive Officer</i> McDonald's Restaurants of Canada Limited	*Frank B. Common, Jr., Q.C. Montreal <i>Counsel</i> Ogilvy Renault
*Camille A. Dagenais, C.C., LL.D. Montreal <i>Director</i> The SNC Group	Pierre Des Marais II Montreal <i>President and Chief Executive Officer</i> UniMédia Inc.	Mitzi S. Dobrin, C.M. Westmount <i>Chairman and Chief Executive Officer</i> DBRN Holdings Ltd.	*G. Campbell Eaton, O.C., M.C., C.D., LL.D. St. John's, Nfld. <i>President</i> Dublin Ltd.	John R. Evans, C.C., M.D. Mississauga <i>Chairman</i> Allelix Biopharmaceuticals Inc.
John T. Ferguson Edmonton <i>President and Chief Executive Officer</i> Princeton Developments Ltd.	Jock K. Finlayson Montreal <i>Chairman</i> Royal Insurance Company of Canada	Rowland C. Frazee, O.C. Montreal <i>Retired Chairman</i> Royal Bank of Canada	Arden R. Haynes Toronto <i>Chairman and Chief Executive Officer</i> Imperial Oil Limited	**Lorne F.J. Hehn Winnipeg <i>President and Chairman of the Board</i> United Grain Growers Limited
Charles H. Knight Regina <i>Chief Executive Officer</i> Denro Holdings Ltd.	Walter F. Light, O.C., O.Ont. Toronto <i>Retired Chairman</i> Northern Telecom Limited	The Hon. E. Peter Lougheed, P.C., C.C., Q.C. Calgary <i>Senior Partner</i> Bennett Jones Verchere	Clifford S. Malone Toronto <i>Vice-Chairman</i> United Corporations Limited	Alexander B. Marshall London, England <i>Company Director</i>
J. Pierre Maurer New York <i>Retired</i> <i>Vice-Chairman of the Board</i> Metropolitan Life Insurance Company (New York)	G. Wallace F. McCain Florenceville, N.B. <i>President</i> McCain Foods Limited	Dawn R. McKeag Winnipeg <i>President</i> Walford Investments Ltd.	*W. Earle McLaughlin Montreal <i>Former Chairman of the Board</i> Royal Bank of Canada	J.W.E. Mingo, Q.C. Halifax <i>Barrister</i> Stewart McKelvey Stirling Scales
J. Edward Newall Mississauga <i>Chairman and Chief Executive Officer</i> Du Pont Canada Inc.	Ralph A. Pfeiffer, Jr. Greenwich, CT. <i>Retired Chairman and Chief Executive Officer</i> IBM World Trade Corp.	Neil F. Phillips, Q.C. New York <i>Resident Senior Counsel</i> Goodman Freeman Phillips & Vineberg	Herbert C. Pinder Saskatoon <i>President</i> Saskatoon Trading Company Limited	Claude Pratte, Q.C. Quebec City <i>Counsel</i> Stein, Monast, Pratte & Marseille
Charles I. Rathgeb North York <i>Company Director</i> Private Investments	Kenneth C. Rowe, F.C.I.S. Halifax <i>Chairman, President and Chief Executive Officer</i> I.M.P. Group Limited	***Guy Saint-Pierre Montreal <i>President and Chief Executive Officer</i> The SNC Group	Robert T. Stewart Vancouver <i>Chairman, President and Chief Executive Officer</i> Scott Paper Limited	John A. Tory, Q.C. Toronto <i>Deputy Chairman</i> The Thomson Corporation
W.P. Wilder Toronto <i>Company Director</i>				

*Retires January 24, 1991

**Resigned November 15, 1990

***Appointed November 6, 1990

The six standing committees of the Board of Directors of Royal Bank of Canada, as listed below, have the responsibility of maintaining integrity and sensitivity within the major areas of activity of the Bank consistent with the strategic development goals of the corporation.

The Audit Committee assumes the responsibility of reviewing the annual and quarterly financial statements and internal audit and compliance procedures of the Bank and of ensuring that disclosure of accurate, reliable data is made to interested parties.

Chairman: Ian A. Barclay.

Members: R.L. Cliff, J.R. Evans, W.F. Light, A.B. Marshall, J.P. Maurer, R.A. Pfeiffer, Jr., J.A. Tory.

The Audit Committee, through meetings with shareholders' auditors, the Chief Inspector and the Chief Accountant and periodic reviews of internal audit and compliance procedures and accounting practices of the Bank, ensures the disclosure of reliable financial information. Management information systems development and revisions to accounting practices are subject to review by this committee. The committee also reviews management recommendations for issues of debentures by the Bank and may within limits prescribed by the Board of Directors authorize and approve issues of Bank debentures.

The Committee meets at least four times annually and as required. It reports to the Board of Directors on its activities, particularly its review of the Bank's financial statements and on the nomination and remuneration of auditors.

The International Strategic Issues Committee, acting in an advisory capacity to management and the Board, examines major international issues critical to the future of the Bank and / or the Bank's response to them.

Chairman: Neil F. Phillips.

Members: Sir James Ball, J.K. Finlayson, A.B. Marshall, J.P. Maurer, C.I. Rathgeb, K.C. Rowe, R.T. Stewart, W.P. Wilder.

The International Strategic Issues Committee was created in 1987 and is charged with reviewing major international issues to consider their implications for the international and Canadian operations of the Bank as well as for Canada in general.

The Committee meets at least semi-annually and reports to the Board of Directors at least once each fiscal year.

The Loan Policy Committee sustains an advisory and monitoring role with regard to the lending policies and practices of the Bank.

Chairman: J.W.E. Mingo.

Members: G.H. Blumenauer, C.A. Dagenais, M.S. Dobrin, J.T. Ferguson, W.E. McLaughlin, H.C. Pinder, W.P. Wilder.

The Loan Policy Committee reviews and monitors the application of credit policy to ensure prudent risk management and consistent strategic planning. Loans of magnitude exceeding the generally acceptable percentage of capital, and those involving unusual circumstances are studied by the committee prior to management approval. Loans to directors and employees are approved by this group and, as required by the Bank Act, are reported to the Board of Directors. Finally, subject to the provisions of the Bank Act, administrative matters of an urgent nature may be referred to this committee for approval prior to subsequent review by the following meeting of the Board.

The committee meets regularly, twice a month, in addition to policy meetings and reports its activities to the Board of Directors with appropriate recommendations, desirable in the circumstances.

The Nominating Committee, under given criteria governing the overall composition of the Board, recommends suitable candidates for appointment as directors.

Chairman: Robert M. Chipman.

Members: G.C. Eaton, J.K. Finlayson, C.H. Knight, C.S. Malone, D.R. McKeag.

The Nominating Committee, under guidelines established to sustain Board composition, reviews and recommends areas of representation which are complementary to the Bank's strategic development goals. The committee further seeks to identify candidates who are able and willing to participate in the diverse scope of the Bank's activities.

The committee meets at least semi-annually and reports to the Board of Directors at least once each fiscal year.

The Personnel and Compensation Committee, in an advisory capacity, reviews and monitors Personnel policies, management development program and total compensation practices of the Bank.

Chairman: A.R. Haynes.

Members: F.B. Common, Jr., G.W.F. McCain, J.E. Newall, R.A. Pfeiffer, Jr., C. Pratte.

The Personnel and Compensation Committee is charged with periodic reviewing of the Bank's long-range plans and policies for recruiting, developing and motivating personnel. Compensation practices and management succession are areas of regular review and approval of remuneration of the Bank's most senior executive staff is required of this committee.

The committee is required to submit to the Board of Directors a report on its activities and any recommendations it deems appropriate.

The Public Policy Committee reviews the Bank's public posture to ensure that its operations remain consonant with the changing values and expectations of society.

Chairman: E.P. Loughheed.

Members: R.W. Campbell, G.A. Cohon, Pierre Des Marais II, R.C. Frazee, L.F.J. Hehn, C.S. Malone.

The Public Policy Committee acts in an advisory capacity to the Board of Directors in areas relating to the Bank's overall interaction with its various key publics. Studies of the Bank's efforts to ensure ethical and socially responsible business conduct, corporate responsibility by way of both human resource and financial contributions, and the appropriateness of Public Affairs considerations as related to the Bank's strategic goals, form the key elements of this committee's functional mandate.

Reports and recommendations are made at least once each fiscal year to the Board of Directors. The Committee meets at least semi-annually.

OFFICER DIRECTORS

Taylor, Allan R.
*Chairman & Chief Executive
Officer*
Toronto

Cleghorn, John E.
*President & Chief Operating
Officer*
Montreal

CORPORATE BANKING

Galloway, B.C.
Senior Executive Vice-President
Toronto

Business Services & Marketing

Robertson, D.L.
Senior Vice-President
Toronto

Bodt, R.
Vice-President
Royal Bank Leasing Inc.
Toronto

Bowbyes, A.A.
Vice-President
Asian Banking, North America
Toronto

Coulas, L.J.
Vice-President
Commercial Mortgages
Toronto

Dixon, D.J.
Vice-President
Asset Management
Toronto

French, R.C.
Vice-President
Securities Products & Services
Toronto

Gray, R.B.
Vice-President
Trade
Toronto

Harvie, M.P.
Vice-President
*Financial Management &
Administration*
Toronto

CORPORATE BANKING

Hogan, A.J.
Vice-President
*Electronic Banking &
Deposit Products*
Toronto

Prenger, J.H.
Vice-President
*Service Quality, Marketing &
Account Management Support*
Toronto

van Schalkwyk, A.G.
Vice-President
Corporate Finance – East
Toronto

Waddingham, D.G.
Vice-President
Corporate Finance – West
Calgary

Financial Institutions

Achen, N.C.
Senior Vice-President
Toronto

Buth, L.M.
Vice-President
Financial Institutions – Canada
Toronto

Groves, J.R.
Vice-President
Financial Institutions
*U.S.A., Latin America &
Caribbean*
Toronto

Walz, J.C.
Vice-President
Service Management
Toronto

**STRATEGIC
DEVELOPMENT –
CORPORATE**

Kelly, B.V.
Senior Executive Vice-President
Toronto

Arsenault, R.L.
Senior Vice-President
Real Estate
Montreal

Corporate & Retail

MacKay, J.K.
Vice-President
Toronto

RETAIL BANKING

Feeney, G.J.
Senior Executive Vice-President
Montreal

Card Services & Point of Sale

Fithern, W.R.
Senior Vice-President
Montreal

Insurance

Markwell, C.R.
Senior Vice-President
Montreal

**Independent Business &
Agriculture**

Leahey, D.M.
Senior Vice-President
Montreal

Murphy, J.J.
Vice-President
Agricultural Banking
Winnipeg

Personal Banking

Guay, J.A.R.
Senior Vice-President
Montreal

Bougard, J.E.Y.
Vice-President
Deposit & Retail Services
Montreal

Leather, T.E.
Vice-President
Retail Securities
Montreal

Lepage, J.E.D.
Vice-President
Residential Mortgages
Montreal

Phelan, M.F.
Vice-President
Personal Lending Services
Montreal

Walters, R.B.
Vice-President
Mutual Funds
Toronto

RETAIL BANKING**Private Banking**

Webb, A.A.
Senior Vice-President
Montreal

Gray, B.M.
Vice-President
America
Montreal

Marketing & Planning

Gill, G.
Senior Vice-President
Montreal

Case, P.A.
Vice-President
Advertising
Toronto

Finance

Loucks, D.H.
Vice-President
Montreal

**STRATEGIC
DEVELOPMENT –
RETAIL**

MacDonald, W.A.R.
Senior Executive Vice-President
Toronto

Lablans, F.H.S.
Vice-President
Retirement Income
Toronto

**TREASURY &
INVESTMENT BANKING**

Taylor, P.A.
Executive Vice-President
Toronto

Treasury

Aitken, G.C.
*Senior Vice-President
& Treasurer*
Toronto

Griffiths, B.P.
*Senior Vice-President
Foreign Exchange*
Toronto

Bastian, M.A.
*Vice-President
Development & Marketing*
Toronto

Charbonneau, A.J.
*Vice-President
Treasury – Quebec*
Montreal

Dougherty, D.W.
Vice-President & Comptroller
Toronto

Grierson, P.
*Vice-President
Operations & Systems*
Toronto

Mirrlees, A.
*Vice-President
Strategy & Planning*
Toronto

Muskat, I.
*Vice-President
Capital Market Products*
Toronto

Sankey, R.J.
*Vice-President & Deputy
Treasurer*
Toronto

INVESTMENT BANKING

RBC Dominion Securities Inc.

Pitblado, J.B.
Chairman
Toronto

Fell, A.S.
*President & Chief Executive
Officer*
Toronto

Mackay, W.R.
*Executive Vice-President
& Chief Operating Officer*
Toronto

**RBC Dominion Securities
Pemberton**

Wyman, W.R.
Vice-Chairman
Vancouver

**RBC Dominion Securities
Corporation**

Ball, G.L.
President
New York

**RBC Dominion Securities
International Limited**

Sanders, J.R.
Chairman
London

**RBC Dominion Securities Inc.
Tokyo Representative Office**

Ohtake, T.
Vice-President & Director
Tokyo

**INVESTMENT
MANAGEMENT**

**Royal Bank Investment
Management Inc.**

Paterson, R.C.
Chairman
Toronto

Siegerman, M.H.
Deputy Chairman
Toronto

MacKay, I.A.
*President & Chief Executive
Officer*
Toronto

**OPERATIONS &
SERVICE DELIVERY**

Gorman, W.J.
Executive Vice-President
Toronto

Elsie, H.E.
*Senior Vice-President
Operations*
Toronto

Aubut, C.A.
*Vice-President
Quality Service*
Montreal

Juneau, R.M.
*Vice-President
Computer & Network Services*
Toronto

Morrison, K.J.
*Vice-President
Network & Business Field
Automation*
Toronto

Riviere, R.H.
*Vice-President
Business & Field Operations*
Toronto

Spicer, R.L.
*Vice-President
Real Estate Resources
Delivery Network*
Montreal

**CREDIT RISK
MANAGEMENT**

Gregson, B.D.
Senior Executive Vice-President
Toronto

Bleackley, T.W.
*Executive Vice-President
Lending*
Toronto

Corlett, M.A.
*Senior Vice-President
Lending – International*
Toronto

Stone, E.G.
*Senior Vice-President
Lending – Canada*
Toronto

Allen, O.W.
*Vice-President
Lending – Canada*
Toronto

Benford, S.E.
*Vice-President
Credit Policy*
Toronto

Chang, R.S.
*Vice-President
Lending – International*
Toronto

Grant, R.S.
*Vice-President
Lending – Canada*
Toronto

Keller, M.R.
*Vice-President
Lending – Canada*
Toronto

Pitz, P.G.
*Vice-President
Lending – Canada*
Toronto

Talbot, J.K.
*Vice-President
Special Sovereign Loans*
Toronto

Travis, R.E.
*Vice-President
Lending – International*
Toronto

von dem Hagen, K.A.
*Vice-President
Country Risk*
Toronto

Waiser, M.A.
*Vice-President
Lending – International*
Toronto

**CREDIT RISK
MANAGEMENT****Special Loans**

McDermid, T.R.
Senior Vice-President
Toronto

Anderson, J.D.
Vice-President
Toronto

Squires, W.D.
Vice-President
Calgary

Vanni, F.J.
Vice-President
Toronto

**CORPORATE HUMAN
RESOURCES**

McCartney, W.J.
Executive Vice-President
Montreal

Galbraith, W.N.
Vice-President
Corporate Human Resource
Services
Montreal

Gannon, J.J.
Vice-President
Human Resource Planning
& Development
Montreal

Gilbert, W.H.
Vice-President
Succession Planning
Toronto

Holder, A.E.
Vice-President
Corporate Human Resource
Services
Toronto

Tucker, P.H.
Vice-President
Compensation & Employee
Relations
Montreal

**CORPORATE PLANNING
& ORGANIZATION**

Wells, D.S.
Senior Vice-President
Montreal

Pennycook, R.S.
Vice-President
Corporate Planning
Montreal

**ECONOMIC &
CORPORATE AFFAIRS**

Neufeld, E.P.
Executive Vice-President
Toronto

Delamere, D.R.
Vice-President
Public Affairs
Toronto

Grier, D.D.E.
Vice-President & Special Advisor
Corporate Affairs
Toronto

Parker, R.R.
Vice-President & Chief Advisor
Government Affairs
Ottawa

Thomson, A.J.
Vice-President
Economics
Montreal

FINANCE

Bolduc, J.E.
Executive Vice-President
& Chief Financial Officer
Montreal

Merriam, J.
Vice-President & Chief
Accountant
Montreal

Shaw, J.H.
Vice-President & Corporate
Comptroller
Montreal

Thomas, R.
Vice-President
Accounting & Financial
Information Development
Montreal

Corporate Compliance

MacDonald, F.G.
Vice-President
Toronto

Inspection

Tallman, G.G.
Senior Vice-President
& Chief Inspector
Montreal

Farrow, G.E.
Vice-President
Inspection, Investment
Banking & Treasury
Toronto

Ferguson, E.D.
Vice-President
Inspection, Banking Network
Montreal

Marshall, B.C.
Vice-President
Inspection, Corporate
Accounting & Reporting
Montreal

Phillipps, H.I.
Vice-President
Audit Planning Standards
& EDP Audit
Toronto

Law

Burnett, J.T.
Senior Vice President
& General Counsel
Toronto

Taxation

Morris, T.C.
Vice-President
Montreal

SECRETARY

Lawson, J.E.
Vice-President & Secretary
Montreal

**SYSTEMS &
TECHNOLOGY**

Grant, J.C.
Executive Vice-President
Toronto

K.A. Smee
Senior Vice-President
Toronto

Breen, J.K.
Vice-President
Technology Integration
Toronto

Dixon, J.D.
Vice-President
Retail Banking Systems
Toronto

Gazard, R.
Vice-President
Corporate
& Treasury Systems
Toronto

Heckman, G.R.
Vice-President
Technology Planning
& Development
Toronto

Truman, J.K.
Vice-President
Systems Integration
Toronto

**FIELD OFFICERS
& NETWORK****ATLANTIC**

Sutherland, R.J.
*Senior Vice-President
& General Manager
Halifax*

Coveyduck, C.J.
*Vice-President
Retail Banking & Service
Delivery
Halifax*

Gale, W.T.
*Vice-President & Area Manager
New Brunswick
Saint John*

Middaugh, S.A.
*Vice-President
Corporate Banking
Halifax*

Walters, D.S.
*Vice-President & Area Manager
Newfoundland & Labrador
St. John's*

QUEBEC**Corporate Banking**

Turcotte, M.L.
*Senior Vice-President
Montreal*

Béland, J.P.
*Vice-President
Montreal*

Bergeron, J.J.
*Vice-President
Corporate Banking
& Business Services
Montreal*

Bernard, G.R.
*Vice-President
Quebec East
Quebec City*

Bigsby, E.
*Vice-President
International Trade - Quebec
Montreal*

Fauvel, J.R.J.
*Vice-President & Manager
Central Montreal
Montreal*

Rager, J.T.
*Vice-President
Montreal*

Mimeault, M.A.R.
*Vice-President
Lending
Montreal*

QUEBEC**Retail Banking**

Berardinucci, D.A.
*Senior Vice-President
Montreal*

Bernard, R.G.
*Vice-President
Montreal*

Donofrio, S.L.
*Vice-President & Area Manager
Quebec City
Quebec City*

Mackenzie, G.T.
*Vice-President
Retail Marketing & Service
Delivery
Montreal*

Poirier, A.A.
*Vice-President & Area Manager
Montreal Downtown
Montreal*

**METROPOLITAN
TORONTO****Corporate Banking**

Johnson, G.J.
*Senior Vice-President
Toronto*

Colpitts, A.B.
*Vice-President
Toronto*

Dickson, G.A.A.
*Vice-President
Toronto*

Driedger, J.
*Vice-President & Manager
Bloor & Yonge Corporate
Banking Centre
Toronto*

Gale, D.C.
*Vice-President
Corporate Marketing
& Business Services
Toronto*

Hall, R.G.
*Vice-President & Manager
Mississauga Corporate
Banking Centre
Mississauga*

Howland, R.J.V.
*Vice-President & Manager
North York Corporate
Banking Centre
Toronto*

McNish, G.A.
*Vice-President
International Trade - Ontario
Toronto*

**METROPOLITAN
TORONTO****Corporate Banking**

Messmer, J.M.
*Vice-President
Corporate Lending
Toronto*

Munsters, F.M.
*Vice-President
Toronto*

Rafuse, P.J.
*Vice-President
Toronto*

Schroder, B.
*Vice-President & Manager
Royal Bank Plaza
Corporate Banking Centre
Toronto*

Stanley, R.E.
*Vice-President
Toronto*

Retail Banking

Creasor, A.R.
*Senior Vice-President
Toronto*

Appleton, G.C.
*Vice-President
Toronto*

Harrison, K.W.
*Vice-President
Retail Lending
Toronto*

Klassen, J.R.
*Vice-President & Area Manager
Toronto Central
Toronto*

Macoun, C.H.
*Vice-President & Area Manager
Mississauga South
Mississauga*

Mills, W.J.
*Vice-President
Toronto Downtown
Toronto*

External Relations

Gulliford, R.F.
*Vice-President
Toronto*

**ONTARIO
(OUTSIDE TORONTO)**

Baptista, M.C.S.
*Senior Vice-President
& General Manager
Burlington*

Corporate Banking

Aitkenhead, W.B.
*Vice-President & Manager
Regional Corporate Banking
Centre
Kitchener*

Dinwoodie, W.R.
*Vice-President
Burlington*

MacNeill, A.S.
*Vice-President & Manager
Regional Corporate Banking
Centre
Ottawa*

Murray, W.
*Vice-President
Burlington*

Retail Banking

Fraser, L.C.
*Vice-President
Burlington*

Hatley, J.M.S.
*Vice-President
Retail Marketing & Sales
Burlington*

McLennan, D.R.
*Vice-President & Area Manager
Hamilton Wentworth
Hamilton*

Palmer, P.A.
*Vice-President
Burlington*

Walker, J.A.S.
*Vice-President & Area Manager
Ottawa Downtown
Ottawa*

Lending

Cockburn, W.B.
*Vice-President
Burlington*

MANITOBA

Coffey, C.S.
Senior Vice-President
& General Manager
Winnipeg

Bannister, W.D.
Vice-President
Retail Banking & Service
Delivery
Winnipeg

Mills, A.A.
Vice-President
Corporate Banking
Winnipeg

SASKATCHEWAN

Edmonds, L.G.
Senior Vice-President
& General Manager
Regina

Philpott, H.A.
Vice-President
Lending/Corporate
& Independent Business
Marketing
Regina

ALBERTA

Kitchen, D.N.
Senior Vice-President
& General Manager
Calgary

Corporate Banking

Henry, J.E.
Vice-President
Edmonton

Smith, R.F.M.
Vice-President
Calgary

Oil & Gas Banking

Fong, C.L.
Vice-President
Oil & Gas Evaluations
Calgary

Gieck, L.K.
Vice-President
Calgary

Retail Banking

Schneider, R.C.
Vice-President & Area Manager
Calgary Downtown
Calgary

ALBERTA**Lending**

Tower, A.L.
Vice-President
Calgary

BRITISH COLUMBIA

Gaffney, G.F.
Senior Vice-President
& General Manager
Vancouver

Corporate Banking

Penner, W.R.
Vice-President
B.C. & Yukon
Vancouver

Gartner, G.M.
Vice-President & Manager
Vancouver Corporate
Banking Centre
Vancouver

Haskins, R.A.R.
Vice-President
Vancouver

Retail Banking

Bright, G.R.
Vice-President
B.C. & Yukon
Vancouver

Lippert, H.
Vice-President & Area Manager
Vancouver Downtown
Vancouver

Reynolds, J.B.
Vice-President & Area Manager
Victoria

Robin, A.E.
Vice-President & Area Manager
B.C. North & Yukon
Prince George

Lending

Lundy, E.J.
Vice-President
Vancouver

U.S.A.

Walker, J.M.
Senior Vice-President
& General Manager
New York

Brewster, J.P.W.
Vice-President
Treasury
U.S.A., Latin America
& Caribbean
New York

Moodie, W.T.
Vice-President
Branch Services
New York

Ross, M.J.
Vice-President
Lending U.S.A.
New York

Tatrallyay, G.P.Z.
Vice-President
Business Services & Marketing
Corporate Banking
New York

Metropolitan New York

McCutcheon, E.R.
Vice-President
Corporate Banking
New York

Midwestern U.S.A.

Williamson, R.D.
Vice-President
Corporate Banking
Chicago

North Eastern U.S.A.

Gillespie, G.D.
Vice-President
Corporate Banking
New York

South Central U.S.A.

McArthur, A.A.
Vice-President
Corporate Banking
Houston

South Eastern U.S.A.

Gleason, T.L.
Vice-President
Corporate Banking
Atlanta

Western U.S.A.

Lafontaine, R.C.A.
Vice-President
Corporate Banking
Los Angeles

CARIBBEAN**Bahamas & Cayman Islands**

Jacobsen, H.A.
Vice-President
Nassau

Barbados & Eastern Caribbean

Maloney, C.D.
Vice-President
Bridgetown

Puerto Rico

Littlewood, K.A.
President
Royal Bank de Puerto Rico
Hato Rey

LATIN AMERICA

Rednall, J.N.T.
Senior Vice-President
São Paulo

Argentina

Cameron, W.R.
Regional Manager
Buenos Aires

Brazil

Brydon, R.W.
President
The Royal Bank of Canada
(Brazil) S.A.
Banco Comercial e de
Investimento
São Paulo

Mexico

Fraser-Frederiksen, P.
Regional Representative
Mexico City

Venezuela

Kelly, J.J.
Regional Representative
Caracas

EUROPE

Pritchard, D.P.
*Senior Vice-President
& General Manager*
London, England

Corporate Banking

Goom, R.J.
Vice-President
Corporate Banking – U.K.
London, England

Kikano, K.N.
Vice-President
Corporate Lending
London, England

Scammell, S.G.A.
Vice-President
Corporate Banking –
Continental Europe
London, England

Treasury

Klingsick, M.G.
Vice-President
Treasury Products
Europe
London, England

Barnett, D.J.
Vice-President
Trading
London, England

Wong, E.Y.H.
Vice-President
Swaps & Interest Rate
Management
London, England

**Royal Bank of Canada
Europe Limited**

Masleck, R.A.
Chairman & Managing
Director

Senior Vice-President
Finance & Administration
Europe
London, England

Channel Islands

Betley, T.J.
Vice-President & Managing
Director
Royal Bank of Canada
(Channel Islands) Limited
Guernsey

France

Pignard, M.A.
General Manager
Royal Bank of Canada S.A.
Paris

EUROPE

Germany (Federal Republic of)

Lipman, G.J.
Chairman of the
Management Board
Royal Bank of Canada A.G.
Frankfurt

Isle of Man

Hastie, J.G.R.
Managing Director
Royal Bank of Canada
(Isle of Man) Limited
Isle of Man

Italy

Lallier, A.M.S.
Regional Representative
Italy & Greece
Milan

Netherlands

Acuner, S.
Managing Director
RBC Finance BV
Amsterdam

Spain

Tingle, P.R.S.
General Manager
Madrid

Switzerland

Emch, T.H.
General Manager
Royal Bank of Canada
(Suisse) S.A.
Geneva

United Arab Emirates

Hanna, G.M.
General Manager
Dubai

ASIA

McKay, V.G.
Senior Vice-President
& General Manager
Tokyo

China (People's Republic of)

Au, P.Y.T.
Regional Representative
People's Republic of China
Hong Kong

Wu, C.C.
Chief Representative
Beijing

Hong Kong

Gibbs, T.P.
Vice-President
Corporate Banking
& General Manager
Hong Kong & China
Hong Kong

Lawrie, J.Y.
Vice-President
Private Banking – Asia
Hong Kong

Japan

Primeau, J.N.
Vice-President
Treasury – Asia
Tokyo

Williams, J.A.
Vice-President
Corporate Banking – Japan
Tokyo

Korea

Morse, R.W.
General Manager, Korea
Seoul

Singapore

Legg, B.F.
Vice-President
Corporate Banking –
South East Asia &
General Manager Singapore
Singapore

ASIA

Taiwan

Bielarczyk, M.J.
General Manager, Taiwan
Taipei

Australia

Secker, J.R.
Regional Representative
Australia & New Zealand
Sydney

CORPORATE HEADQUARTERS

Street Address: 1 Place Ville Marie
Montreal, Quebec
Canada

Telephone: (514) 874-2110

Fax: (514) 874-7197

Telex: 055-61086

Mailing Address: Royal Bank of Canada
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

STOCK EXCHANGE LISTINGS

Canada: Montreal, Toronto, Vancouver, Winnipeg and Alberta
Stock Exchanges

Japan: Tokyo Stock Exchange

Switzerland: Basle, Geneva, Zurich

U.K.: London Stock Exchange

TRANSFER AGENT AND REGISTRAR

Main Agent: Montreal Trust
Company of Canada

Mailing Address: P.O. Box 890,
Station "B"
Montreal, Quebec
Canada H3B 3K5

Street Address: 1800 McGill College Avenue
Montreal, Quebec
Canada H3A 3K9

Telephone: (514) 982-7000

Fax: (514) 982-7580

Telex: 055-61286

Co-Transfer Agents (Canada) Montreal Trust Company of Canada

Halifax, N.S. 1690 Hollis Street P.O. Box 2187 B3J 3C5	Toronto, Ontario 151 Front Street West 8th Floor M5J 2N1
---	---

Calgary, Alberta 411-8th Avenue S.W. T2P 1E7	Regina, Sask. 1778 Scarth Street S4P 2G1
--	--

Winnipeg, Man. 221 Portage Avenue P.O. Box 369 R3C 2J1	Vancouver, B.C. 510 Burrard Street V6C 3B9
---	--

Co-Transfer Agent (United Kingdom)

National Westminster Bank PLC
Registrar's Department
P.O. Box No. 82, Caxton House
Redcliffe Way, Bristol, England
BS99 7NH

Shareholder Service Agent (Japan)

The Yasuda Trust and Banking Co. Ltd.
1-2-1, Yaesu, Chuo-ku
Tokyo, Japan

SHAREHOLDER DIVIDEND AND SHARE PURCHASE PLAN

Shareholders of record or beneficial owners of Common and/or of certain eligible series of preferred shares may enroll in the Plan. Participants in the Plan may elect to receive their dividends in the form of new Common Shares (stock dividends) or reinvest their cash dividends in new Common Shares. In both instances, the price of the new Common Shares is 95% of the average market price determined at the date of the dividend payment. Participants in the Plan may also make optional payments to purchase new Common Shares as frequently as once a month (on the Investment Date) for an aggregate amount up to Cdn. \$7,500 per quarterly dividend period at 100 per cent of the average market price.

Further information on the Shareholder Dividend and Share Purchase Plan may be obtained from the Shareholder Relations Department, at the Bank's corporate headquarters.

Shareholder inquiries pertaining to the status of Plan accounts may be directed to the Plan Agent, Montreal Trust Company of Canada, Attn. Dividend Reinvestment Services at the mailing address listed or by telephoning (514) 982-7666.

DIVIDEND RECORD DATES

Usually the 24th of January, April, July and October, except for First Preferred Series E, F and G. The dividend record date for the First Preferred Shares Series E is the last day for each month, and for the First Preferred Shares Series F and G is the second week of January, April, July and October.

DIVIDEND PAYMENT DATES

Usually the 24th of February, May, August and November, except for First Preferred Series E, F and G. The dividend payment date for the First Preferred Shares Series E is the 12th day of each month, and for the First Preferred Shares Series F and G is the last business day of January, April, July and October.

VALUATION DAY PRICE

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for common shares of Royal Bank of Canada, adjusted for prior stock splits, is \$7.38 per share.

DIRECT DEPOSIT SERVICE

Shareholders may also elect to have their dividends deposited directly into their savings or chequing accounts at any financial institution which is a member of the Canadian Payments Association. To arrange, please write to our Shareholder Relations Department, at the Bank's corporate headquarters.

INSTITUTIONAL INVESTOR, BROKER, SECURITY ANALYST CONTACT

Institutional investors, brokers, security analysts and others desiring financial information about the Bank should contact the Manager, Investor and Shareholder Relations, at the Bank's corporate headquarters.

DUPLICATE ANNUAL REPORTS

Some registered holders of shares of Royal Bank of Canada might receive more than one copy of shareholder information mailings such as this Annual Report. While every effort is made to avoid duplication, if securities of the same class or series are registered in different names and/or addresses, multiple copies are forwarded. Shareholders receiving more than one copy are requested to write to our Shareholder Relations Department, at corporate headquarters, so that arrangements may be made to avoid duplicate mailings.

Information concerning the Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department, at the Bank's corporate headquarters.

Materials used in this report are intended to be environmentally friendly. Cover and text stocks are acid-free and recycled, with a minimum of 5 per cent post-consumer waste. Vegetable-based inks have been used throughout.

PLEASE RECYCLE



La Banque Royale publie son rapport annuel en français et en anglais.

Legal Deposit, 4th quarter 1990
Bibliothèque nationale du Québec

CREDITS

Design: Taylor & Browning Design Associates, Toronto

Photography: *Principal photography* Edward Gajdel, Toronto
Portraiture Brian Willer, Toronto
Product photography Rob Davidson, Toronto

Illustration: Rene Zamic, Toronto
Thom Sevalrud, Toronto
Laurie Lafrance, Toronto

Typography: Centre Typographique, Montreal
Cooper & Beatty, Limited, Toronto

Colour
Separations: Empress Graphics Inc., Toronto

Printing: Arthurs-Jones Lithographing Ltd., Toronto



ROYAL BANK
OF CANADA

AR02

ROYAL BANK OF CANADA



ANNUAL REPORT 1990

PART TWO

FINANCIAL REVIEW

ABOUT THIS REPORT

This year's Annual Report examines Royal Bank's operations and financial performance in two parts.

This part, "Financial Review", presents the Bank's audited financial statements and a comprehensive analysis of its financial results.

Part One, "Operational Review", discusses the Bank's progress in its major businesses during fiscal 1990.

If you did not receive Part One and wish to, or if you would like additional copies of either part, please write or call:

Royal Bank of Canada
Investor & Shareholder Relations
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

Telephone: (514) 874-5841 Fax: (514) 874-7197

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Canada's economic performance	2
Earnings overview	3
Balance sheet review	4
Acquisitions and divestitures	4
Domestic operations	5
International operations	6
Net interest income	6
Other income	8
Non-interest expenses	9
Income taxes	10
Portfolio risk management	11
LDC developments	12
Non-performing loans	12
Loan losses	14
Interest rate sensitivity and liquidity management	16
Capital funds management	17
Risk-based capital	18
Off-balance sheet activities	20

GLOSSARY OF FINANCIAL TERMS	22
-----------------------------------	----

ANNUAL STATEMENT REQUIRED BY THE BANK ACT

Management's responsibility for financial reporting	24
Auditors' report	24
Audited financial statements	25
Corporations in which the bank owns more than 10% of the voting shares	38
Condensed financial statements of mortgage, leasing and venture capital subsidiaries	40

SUPPLEMENTARY FINANCIAL INFORMATION

Quarterly financial highlights	41
5-year analysis of net interest income on average assets and liabilities	42
10-year financial statements	44
10-year selected statistical data	46

EXECUTIVE OFFICERS	47
--------------------------	----

SHAREHOLDER INFORMATION	48
-------------------------------	----

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This part of the annual report provides a detailed discussion and analysis of Royal Bank of Canada's financial condition and results of operations for fiscal 1990 and 1989. Also presented is a discussion of how the Bank manages credit, liquidity and interest rate risks relating to both balance sheet and off-balance sheet activities. In addition, an analysis of the Bank's capital position under the risk-weighted capital guidelines of the Bank for International Settlements (BIS) is provided.

For analytical purposes, Royal Bank reports its results by domestic and international operations. Domestic operations include all business transacted in Canada, excluding the Canadian-based activities of the Bank's international money market units. Business transacted outside Canada, including the international money market function, constitutes international operations. In this breakdown of domestic and international results, the Bank makes appropriate allocations for non-interest expenses, capital and liquidity.

To assist readers, a glossary of financial terms is provided on pages 22-23.

CANADA'S ECONOMIC PERFORMANCE

This section provides a perspective on Canada's economic performance during the Bank's 1990 fiscal year and outlines the Bank's expectations for the economy during the course of the next year.

Business conditions in Canada deteriorated significantly in 1990, as the Canadian economy entered into a recession in the spring. The Bank estimates that real gross domestic product (GDP) declined slightly between the fourth fiscal quarters of 1989 and 1990. Weakness was widespread among the major categories of domestic demand. Residential construction and retail sales, particularly of big-ticket durable items, were especially affected.

The Bank projects that the economy will start growing by mid-1991 but at a modest rate. Between the fourth fiscal quarters of 1990 and 1991, real GDP is expected to rise only 0.5%, well below the economy's longer-term potential growth rate of 3%. As such, business conditions in 1991 generally are expected to remain very sluggish. Consequently, loan demand will likely be soft in 1991.

Although the cyclically sensitive areas of residential construction and consumer durables have contributed to a slowdown in economic growth since 1988, the further deterioration in business conditions in 1990 was precipitated by increases in interest rates to very high levels. The rate on 90-day treasury bills in Canada jumped from 12.2% at the

beginning of the Bank's 1990 fiscal year to 13.8% by May. The rate subsequently eased to 12.4% by the end of October, but nevertheless remains very high by historical standards, particularly in real (inflation-adjusted) terms. These high interest rates are, in part, a product of rapid increases in labour costs, the continued large public sector demand for credit, and the Bank of Canada's determination to combat inflation.

As the economy weakens, Royal Bank expects short-term interest rates to ease by approximately 1.5 percentage points by the end of fiscal 1991. Longer-term interest rates are likely to remain near current levels due to the extensive borrowing requirements of governments and investor caution in the face of uncertainties as to the inflationary consequences of the crisis in the Middle East. Higher oil prices and the impact of the proposed Goods and Services Tax are expected to raise Canada's inflation rate from just under 5% in 1990 to almost 6% in 1991.

As indicated previously, residential construction and auto sales have been particularly weak. Housing starts have declined from an annualized 220,000 units at the beginning of fiscal 1990 to 143,000 units by October, and are likely to remain very weak during the next several months. Auto sales have declined for several years from their peak of 1.14 million units in 1985 and will likely continue to remain below the one million unit mark in 1991.

The Bank expects businesses will cut back on modernization and expansion plans in 1991 in response to weakening sales, declining profits, continuing high borrowing costs and generally poor confidence levels. Following strong growth during the 1985-1989 period, real (inflation-adjusted) outlays on plant and equipment declined by almost 1% between the fourth fiscal quarters of 1989 and 1990. Such outlays are expected to decline further in 1991.

As domestic demand falters, imports are likely to drop, thereby helping to reduce Canada's record current account deficit of \$17.5 billion recorded during the Bank's 1990 fiscal year. Although the current account deficit is projected to narrow in 1991, there will likely remain a relatively strong dependence on foreign savings and capital. Consequently, financial markets in Canada will remain sensitive to foreign investor confidence in the country's economic management.

The Bank expects the Canadian dollar to decline moderately in 1991, from its level of US 85.7 cents at the end of October 1990.

TABLE 1

COMPARISON OF NET INCOME EXCLUDING LDC LENDING

For the year ended October 31

(\$ millions)

	Total bank		LDC lending (1)		Total bank, excluding LDC lending	
	1990	1989	1990	1989	1990	1989
Net interest income	\$3,594	\$3,625	\$(11)	\$ 140	\$3,605	\$3,485
Provision for loan losses	420	1,380	—	1,100	420	280
	3,174	2,245	(11)	(960)	3,185	3,205
Other income	1,655	1,538	—	—	1,655	1,538
	4,829	3,783	(11)	(960)	4,840	4,743
Non-interest expenses	3,300	2,935	—	—	3,300	2,935
	1,529	848	(11)	(960)	1,540	1,808
Income taxes and minority interest	564	319	(5)	(397)	569	716
Net income (loss)	\$ 965	\$ 529	\$ (6)	\$ (563)	\$ 971	\$1,092
Earnings per share						
Basic	\$3.00	\$1.64			\$3.01	\$3.64
Fully diluted	\$2.96	\$1.63			\$2.98	\$3.57
Average assets	\$121,700	\$112,700	\$1,200	\$2,300	\$120,500	\$110,400
Return on assets	.79%	.47%			.81%	.99%
Average common shareholders' equity	\$4,965	\$4,618			\$4,965	\$4,618
Return on common shareholders' equity	17.5%	10.1%			17.6%	22.2%

(1) For LDC lending, net interest income represents the sum of interest received on non-accrual loans and interest accrued on performing loans, net of the interest cost of funding all such loans. This funding cost is based on the gross amount of LDC loans less the amount of the country risk provision.

EARNINGS OVERVIEW

For the year ended October 31, 1990, Royal Bank of Canada recorded net income of \$965 million, an increase of \$436 million or 82% from 1989. The Bank's 1989 results were adversely impacted by a \$1.1 billion addition to the country risk provision to cover possible losses on loans to less developed countries (LDCs). In 1990, no addition to this provision was required.

Fully diluted earnings per share were \$2.96 in 1990, up from \$1.63 last year. These amounts reflect a two-for-one common share split in early 1990.

Return on average assets was .79% versus .47% in 1989 and the Bank's long-term goal of .90%. Return on common shareholders' equity was 17.5% compared to last year's 10.1% and the Bank's long-term goal of 18%.

As shown in Table 1, net income excluding LDC lending was \$971 million, down 11% from \$1,092 million last year. Higher fee-based income in 1990 was more than offset by higher loan losses, narrower interest margins and greater expenses in domestic operations. Fully diluted earnings per share, also excluding LDC lending, declined 17% to \$2.98.

At year end, the Bank's country risk provision represented 72% of the face value of its LDC debt exposure, compared to 70% a year ago. The sale of \$417 million of LDC loans and an increase in common shareholders' equity, largely resulting from earnings retention, lowered the Bank's net LDC exposure as a percent of common equity to 21% from 27% a year ago.

The Bank's investment banking subsidiary, RBC Dominion Securities, earned \$22 million after tax, down from \$32 million in 1989. While the firm recorded excellent results in fixed income areas, consisting of bond, money market and government activities, it experienced lower underwriting volumes, reduced equity trading revenues and weaker international results.

At October 31, 1990, Royal Bank's book value per common share stood at \$18.10, up 12% from a year ago, while the market price was \$20.75, down 14%. This 14% decline compared to a 26% reduction in the Toronto Stock Exchange Bank Index during the same period. Despite the decline in share price, the Bank's common shares traded at a 15% premium to book value at year end.

In 1990, the Bank paid out \$1.16 in dividends per common share, up \$0.06 per share or 5% from 1989.

TABLE 2

LOANS					
<i>As at October 31</i>					
<i>(\$ millions)</i>					
	1990	1989	1988	1987	1986
Residential mortgages	\$25,733	\$22,530	\$19,502	\$16,184	\$12,510
Consumer instalment, credit card and other personal loans	16,826	15,612	14,187	11,744	10,120
Total consumer loans	42,559	38,142	33,689	27,928	22,630
Business and government loans	50,135	45,097	44,092	41,365	43,304
Total loans	\$92,694	\$83,239	\$77,781	\$69,293	\$65,934
Consumer loans as a percent of total loans	46%	46%	43%	40%	34%

TABLE 3

DEPOSITS					
<i>As at October 31</i>					
<i>(\$ millions)</i>					
	1990	1989	1988	1987	1986
Consumer deposits	\$60,577	\$53,851	\$46,701	\$42,530	\$41,031
Business, government and bank deposits	38,591	35,335	40,537	43,281	43,222
Total deposits	\$99,168	\$89,186	\$87,238	\$85,811	\$84,253
Consumer deposits as a percent of total deposits	61%	60%	54%	50%	49%

BALANCE SHEET REVIEW

At October 31, 1990, Royal Bank's total assets were \$125.9 billion, up \$11.3 billion or 10% from a year ago. Loans rose \$9.5 billion or 11%, while bankers' acceptances declined by \$300 million. Liquid assets, comprising mostly deposits with other banks and securities, increased \$2.0 billion. The Bank's liquid assets represented 14% of total assets at year-end 1990, unchanged from a year ago.

On an average basis, assets increased 8% during 1990, rising \$9.0 billion to \$121.7 billion.

In light of the current economic weakness in Canada and growing evidence of a slowdown in consumer and business borrowing, the Bank expects asset growth in 1991 to be somewhat lower than that recorded this year.

A five-year breakdown of loans is provided in Table 2. In 1990, loans to businesses and governments increased \$5.0 billion or 11% from 1989, despite the overall slowdown in business spending. Total consumer loans increased \$4.4 billion or 12%, with residential mortgages up \$3.2 billion or 14% and consumer instalment, credit card and other personal loans up \$1.2 billion or 8%. Total consumer loans have grown 17% on a compound annual basis since 1986. They now represent 46% of the Bank's total loans, unchanged from last year but up from 34% in 1986.

This represents a positive shift in loan mix as, historically, the consumer portfolio's geographic diversification and relatively small exposure per account have resulted in a lower loss ratio than that for other loans.

As highlighted in Table 3, a similar trend is apparent on the deposit side. Consumer deposits, now totalling \$60.6 billion, have grown to represent 61% of total deposits, up from 49% four years ago. This shift, achieved through a 10% compound annual growth in consumer deposits since 1986, is highly favourable as these deposits are a less costly, more stable and more manageable source of funding than wholesale deposits.

In 1990, consumer deposits rose \$6.7 billion or 12%, largely in retirement savings and money market savings accounts, to which consumers were drawn by their high yields in the prevailing interest rate environment.

The Bank's total capital stood at \$8.8 billion at year-end 1990, up \$852 million from last year. Contributing to the increase was \$535 million of internally generated capital, \$141 million of common equity issued through the Shareholder Dividend and Share Purchase Plan and \$200 million of debentures issued in the fourth quarter. Subsequent to year end, the Bank issued an additional \$200 million of debentures.

ACQUISITIONS AND DIVESTITURES

In 1990, Royal Bank took further steps to widen its revenue base.

The Bank's investment banking subsidiary, RBC Dominion Securities, acquired 70% of the real estate corporate finance division of Toronto-based Marcil Trust Company (renamed DS Marcil), one of Canada's largest private placement firms for real estate debt and equity. This acquisition complements RBC Dominion Securities' existing real estate finance capabilities.

TABLE 4

HIGHLIGHTS OF DOMESTIC EARNINGS*For the year ended October 31**(As a percent of average assets, taxable equivalent basis)*

	1990	1989	1988	1987	1986
Net interest income	3.27%	3.50%	3.58%	3.74%	3.50%
Provision for loan losses	(.45)	(.32)	(.42)	(.98)	(.84)
	2.82	3.18	3.16	2.76	2.66
Other income	1.40	1.38	1.23	1.05	.96
	4.22	4.56	4.39	3.81	3.62
Non-interest expenses	(2.94)	(2.81)	(2.68)	(2.65)	(2.63)
	1.28	1.75	1.71	1.16	.99
Income taxes and minority interest	(.55)	(.77)	(.79)	(.57)	(.50)
Return on assets	.73%	.98%	.92%	.59%	.49%
Net income (\$ millions)	\$701	\$865	\$701	\$401	\$313
Average assets (\$ millions)	\$96,200	\$88,000	\$76,500	\$68,600	\$64,000

Also during 1990, the Bank signed an agreement to purchase The International Trust Company, a Toronto-based company with approximately \$3 billion in assets under administration. International Trust specializes in providing fiduciary services, particularly pension fund administration, to corporations and other institutions. This acquisition should be completed once financial services reform legislation is enacted. The first portion of this legislation, dealing with federally regulated trust and loan companies, has recently been tabled. Similar legislation for banks and federally regulated insurance companies is expected to be tabled in the near future. The timetable for consideration and enactment of this legislation is unclear at the present time. Under this proposed legislation, financial institutions will have access to each others' businesses through a combination of cross ownership and new business powers. Accordingly, Canadian banks will gain new powers in such areas as trust services, insurance, data processing and real estate.

In 1990, the Bank also sold or wound up operations which did not fit into its strategic plans or which failed to meet its profit objectives.

In Australia, the Bank sold its 50% interest in National Mutual Royal Bank Limited, which focused primarily on retail banking. This disposition, which resulted in an after-tax gain of \$31 million, stemmed from the Bank's increasing focus outside Canada on corporate banking activities. The Bank will conduct its existing business with corporate customers and financial institutions in Australia through its representative office in Sydney.

Also, Libra Bank PLC, a U.K.-based consortium bank engaged in lending to Latin American countries, and in which Royal Bank had a 10.6% interest, was wound up during 1990. This resulted in the absorption of \$253 million face value of Libra Bank's LDC loans into Royal Bank's portfolio.

In London, RBC Dominion Securities International closed its equities unit, Kitcat & Aitken. Despite its reputation and ability to operate at low cost, this unit had difficulty generating profits in London's overcrowded securities market. The Bank's exit from the U.K. equities market will allow it to focus its efforts on the Canadian equities business in Europe.

Subsequent to year end (in December 1990), the operation of the Diners Club franchise for Canada, currently held and operated by the Bank, will be acquired and assumed by Citicorp Diners Club Inc. This transaction will have no material effect on the earnings of the Bank.

DOMESTIC OPERATIONS

In 1990, the Bank further expanded its domestic network, adding 68 new branches (while closing 11) and installing 803 additional automated banking machines.

This expansion facilitated domestic average asset growth, which amounted to \$8.2 billion or 9% in 1990. Residential mortgage loans increased \$3.7 billion, other consumer loans rose \$1.6 billion and loans to businesses and governments were up \$3.1 billion.

Earnings from the Bank's domestic operations declined in 1990, as reflected in Table 4. Net income dropped \$164 million or 19% to \$701 million, while return on assets declined 25 basis points to .73%. This reduction stemmed from several factors.

First, although loan volumes were higher, the domestic net interest margin shrank a considerable 23 basis points in 1990 due to higher non-accrual loans, competitive pricing pressures and clients' preferences for floating-rate deposits during periods of rising short-term interest rates. Second, the recession in Canada resulted in higher personal and business bankruptcies and, as a result, higher domestic loan losses. Finally, while growth in fee-based income was a strong 11%, this was more than offset by a 15% increase in non-interest expenses, reflecting the Bank's continued investment in its branches, electronic network, strategic initiatives and staff training.

TABLE 5

HIGHLIGHTS OF INTERNATIONAL EARNINGS*For the year ended October 31**(As a percent of average assets, taxable equivalent basis)*

	1990	1989	1988	1987	1986
Net interest income	2.11%	2.58%	2.25%	1.70%	2.25%
Provision for loan losses	.07	(4.43)	(1.55)	(.71)	(1.29)
	2.18	(1.85)	.70	.99	.96
Other income	1.20	1.30	1.18	1.06	.65
	3.38	(.55)	1.88	2.05	1.61
Non-interest expenses	(1.84)	(1.87)	(1.78)	(1.60)	(1.45)
	1.54	(2.42)	.10	.45	.16
Income taxes and minority interest	(0.51)	1.06	(.06)	(.10)	.25
Return on assets (1)	1.03%	(1.36)%	.04%	.35%	.41%
Net income (loss) (1) (\$ millions)	\$264	\$ (336)	\$11	\$111	\$139
Average assets (\$ millions)	\$25,500	\$24,700	\$27,800	\$31,800	\$33,700

(1) Before special provision for losses on country lending in 1987.

INTERNATIONAL OPERATIONS

The Bank's international operations generated net income of \$264 million in 1990, compared to an after-tax loss of \$336 million in 1989, as reflected in Table 5. The improvement resulted from no addition to the country risk provision this year, versus a \$1.1 billion addition last year.

The benefit of no LDC provisioning in 1990 was somewhat mitigated by lower interest receipts from LDC borrowers. These receipts totalled \$156 million this year, down \$229 million or 59% from 1989.

Excluding LDC lending, international net income was \$270 million versus \$227 million last year, while return on assets on this same basis was 1.11% compared to 1.02% in 1989. The increase in earnings largely reflects improved returns on the corporate banking portfolio and loan loss recoveries of \$17 million, up from \$5 million in 1989.

Average international assets were up only \$800 million from 1989, as an increase in business loans was largely offset by LDC loan sales and by a lower translated value of foreign-currency denominated assets stemming from a stronger Canadian dollar in 1990.

NET INTEREST INCOME

Net interest income represents a major portion (69% in 1990) of the Bank's total revenue, defined as the sum of net interest income and other income. For purposes of analysis, net interest income includes a "taxable equivalent adjustment" which appears in Note 16 to the financial statements on page 37. This adjustment is made to reflect the tax-exempt nature of income from certain "loan substitute" securities such as preferred shares, income debentures and small business bonds. More details on the effects of tax-exempt income are provided under "Income Taxes" on page 10.

The major determinants of net interest income are the volume of average earning assets and the spread or margin recorded on those assets. The spread is the difference between the interest rate earned on assets such as loans and securities, and the interest rate paid on liabilities such as deposits and debentures that fund those assets. The volume of average earning assets and the average rates earned and incurred on individual asset and liability components respectively for the past five years are shown on pages 42 and 43. A detailed volume/rate analysis of changes in net interest income for the past two years also appears in Table 6.

In 1990, the Bank recorded taxable equivalent net interest income of \$3,686 million, a reduction of \$30 million or 1% from 1989. As shown at the bottom of page 42, net interest income as a percentage of average assets declined to 3.03% from 3.30% last year.

As demonstrated in Table 6, domestic net interest income increased \$68 million to \$3,148 million, due to higher volumes of earning assets, mostly residential mortgages and other consumer loans. The positive impact of higher volumes was partially offset by narrower spreads. This was reflected in a reduction of the domestic net interest margin to 3.27% from 3.50% last year.

International net interest income declined \$98 million or 15% in 1990 to \$538 million, while the international net interest margin fell to 2.11% from 2.58%. Net interest income from LDCs was down \$151 million from a year ago, as shown in Table 1 on page 3. Interest from Mexico, now being accrued at a fixed rate of 6.25% under the Brady Plan, was \$63 million lower in 1990. Interest earned on LDC non-accrual loans declined \$88 million, as shown in Table 14 on page 14. Brazil alone accounted for a reduction of \$131 million. This was partly offset by higher interest earned from other non-accrual LDCs, principally Venezuela.

TABLE 6

ANALYSIS OF CHANGES IN NET INTEREST INCOME

For the year ended October 31

(\$ millions)

	1990 vs 1989			1989 vs 1988		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Average volume(1)	Average rate(1)	Net change	Average volume(1)	Average rate(1)	Net change
Assets						
Deposits with other banks	\$ (5)	\$ (5)	\$ (10)	\$(167)	\$ 139	\$ (28)
Securities						
Loan substitutes	40	6	46	(21)	24	3
Other securities	9	48	57	80	138	218
Net gains on disposal of securities	—	(53)	(53)	—	54	54
Loans						
Domestic						
Residential mortgages	425	112	537	405	79	484
Consumer instalment, credit card and other personal loans	235	142	377	250	268	518
Loans to businesses and governments	404	28	432	296	593	889
International						
Residential mortgages	(25)	7	(18)	(37)	32	(5)
Consumer instalment loans	(7)	(2)	(9)	(10)	2	(8)
Loans to businesses and governments	24	(102)	(78)	(31)	286	255
Total interest income	1,100	181	1,281	765	1,615	2,380
Liabilities						
Deposits						
Domestic						
Individuals	589	539	1,128	482	877	1,359
Businesses and governments	75	39	114	(12)	255	243
Banks	3	20	23	(2)	1	(1)
International						
Individuals	12	(10)	2	(2)	109	107
Businesses and governments	115	4	119	(43)	138	95
Banks	(86)	20	(66)	(88)	186	98
Debentures and other liabilities	2	(11)	(9)	105	19	124
Total interest expense	710	601	1,311	440	1,585	2,025
Net interest income	\$ 390	\$(420)	\$ (30)	\$ 325	\$ 30	\$ 355
Consisting of:						
Domestic	\$ 348	\$(280)	\$ 68	\$ 383	\$ (39)	\$ 344
International	42	(140)	(98)	(58)	69	11
Total	\$ 390	\$(420)	\$ (30)	\$ 325	\$ 30	\$ 355

(1) Volume/rate variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change in net interest income on a taxable equivalent basis.

TABLE 7

NET GAINS (LOSSES) ON DISPOSAL OF SECURITIES

For the year ended October 31

(\$ millions)

	1990	1989	1988	1987	1986
Equity securities	\$13	\$29	\$ (4)	\$ 98	\$ 90
Debt securities (1)	1	38	17	18	15
Total	\$14	\$67	\$13	\$116	\$105

(1) Prior to 1989, gains (losses) on disposal of debt securities represent the portion of gains and losses amortized to income.

TABLE 8

OTHER INCOME

For the year ended October 31
(\$ millions)

	1990	1989	1988	1987	1986
Service charges					
Deposit accounts	\$ 439	\$ 392	\$ 356	\$ 306	\$268
Payroll processing	31	27	23	20	18
Other service fees	90	73	59	47	34
	560	492	438	373	320
Capital market fees	278	310	184	74	56
Foreign exchange revenue	260	245	236	200	150
Card service fees	197	173	148	128	117
Bankers' acceptances, letter of credit, guarantee and commitment fees	167	153	135	118	95
Trust and agency fees	71	58	51	44	37
Revenue from financial instruments	33	15	5	—	—
Gain (loss) on disposal of fixed assets	(1)	(7)	2	51	—
Other	90	99	71	74	56
Total	\$1,655	\$1,538	\$1,270	\$1,062	\$831

Excluding LDC lending, international net interest income was \$549 million, up \$53 million from 1989 due to higher volumes of business loans. The international net interest margin, also excluding LDC lending, was 2.26% compared to 2.22% a year ago.

Net interest income in 1990 was also affected by net gains recorded on the disposal of securities.

As shown in Table 7 on page 7, these gains totalled \$14 million, down \$53 million from 1989. Gains on disposal of equity securities declined \$16 million. Gains on disposal of debt securities fell \$37 million due to the inclusion in the 1989 amount of \$42 million of gains deferred from years prior to 1989. This related to a change in accounting, instituted in 1989 and not applied retroactively, whereby gains or losses on disposal of bonds are recognized immediately in income. Prior to 1989 such gains and losses were deferred and amortized to income over five years.

OTHER INCOME

Other income, which includes fee-based revenue from services such as deposit accounts, foreign exchange, credit cards and bankers' acceptances, has risen 19% annually since 1986 and has thus grown to assume an increasing portion of the Bank's total revenue. This fee-based income is derived about equally from retail and institutional clients.

In 1990, other income represented 31% of total revenue, up from 29% last year and 22% just four years ago. Relative to average assets, other income remained unchanged at last year's 1.36%, but was considerably higher than the .85% level in 1986. Since fee-based income exerts little pressure on capital and also diversifies revenue streams, this trend is positive.

A breakdown of other income for the past five years appears in Table 8. In 1990, other income totalled \$1,655 million, an increase of \$117 million or 8% from 1989. All the components of other income were up, with the exception of capital market fees. These declined \$32 million or 10% from last year, as a weak securities market resulted in lower underwriting fees and brokerage commissions within RBC Dominion Securities.

Service charges increased \$68 million or 14%, due to higher volumes of transactions, the annual revision of service prices, and much greater usage of the Bank's automated banking machines (ABMs), which increased by 803 machines or 35% during 1990. Greater usage of the Bank's payroll services was an additional factor in the growth in service charge revenues.

Fees from card services, including Visa and Diners Club cardmember and merchant fees, increased \$24 million or 14% in 1990.

Revenue from financial instruments, such as foreign currency and interest rate futures, swaps and options, more than doubled during the year to \$33 million. This represents 2% of the Bank's other income, compared to less than half a percent two years ago.

Foreign exchange revenue increased \$15 million or 6% in 1990. Fees from bankers' acceptances and letters of credit were up \$14 million. Trust and agency fees increased \$13 million, almost entirely relating to investment management services.

TABLE 9

NON-INTEREST EXPENSES*For the year ended October 31**(\$ millions)*

	1990	1989	1988	1987	1986
Salaries, pensions and other staff benefits	\$1,889	\$1,706	\$1,467	\$1,327	\$1,254
Premises and equipment					
Building rent	173	148	137	119	106
Rental income from subleases	(71)	(62)	(60)	(54)	(45)
	102	86	77	65	61
Depreciation	206	171	150	129	116
Computer rental and maintenance	110	94	83	67	69
Building repairs and maintenance	60	52	49	47	42
Property taxes	43	40	39	37	34
Office equipment rental and maintenance	35	34	34	30	28
Other	38	37	31	33	27
	594	514	463	408	377
Other					
Telecommunications	117	101	82	70	63
Business and capital taxes	108	80	68	113	90
Postage and courier	87	77	62	56	51
Stationery and printing	85	78	65	68	62
Advertising, public relations and business development	70	60	53	42	42
Legal and professional fees	70	58	52	45	43
Travel and employee relocation	62	56	52	49	52
Deposit insurance	45	40	36	36	28
Employee training	26	18	14	10	10
Amortization of goodwill	18	14	32	6	9
Donations	10	8	7	6	5
Other	119	125	97	91	86
	817	715	620	592	541
Total	\$3,300	\$2,935	\$2,550	\$2,327	\$2,172

NON-INTEREST EXPENSES

Non-interest expenses represent all the Bank's costs except interest expense, the provision for loan losses and income taxes. Table 9 provides a five-year history of non-interest expenses broken down into major components.

In 1990, total non-interest expenses were \$3,300 million, an increase of \$365 million or 12% from 1989. As a percentage of average assets, non-interest expenses increased to 2.71% from 2.61% last year. Relative to total revenue, non-interest expenses were 61.8%, compared to 55.9% in 1989 and the Bank's long-term goal of 60%.

Staff costs, up 11%, accounted for \$183 million, or just over half, of the total non-interest expense growth. This reflects an increase in staff positions, annual merit increases, and the extension this year of the Bank's performance incentive program to all employees.

At the end of 1990, total full-time staff numbered 42,910, up 1,133 or 3% from year-end 1989. Part-time staff totalled 13,979, an increase of 1,287 or 10% from last year. Most of the additional positions were in customer service areas.

During 1990, Royal Bank employees continued to increase their participation in the employee savings and share ownership plan. The number of participants increased 16% this year to 28,715, representing 71% of all eligible employees. Through this plan, Royal Bank employees now own 3% of total outstanding shares. The Bank contributed \$20 million to the plan in 1990, compared to \$16 million in 1989.

Also in 1990, the Bank kept up the pace of expansion of its electronic network, which includes ABMs, computers and telecommunications equipment. Partially as a result of this expansion, premises and equipment costs rose \$80 million or 16% in 1990.

Other expenses, which include miscellaneous costs such as telecommunication charges, business and capital taxes, and deposit insurance premiums, were up \$102 million or 14% during fiscal 1990. Business and capital taxes accounted for more than a quarter of the increase. Higher telecommunications and postage and courier costs accounted for another quarter of the increase.

The Bank expects expense growth in 1991 to moderate from this year's level, even after accounting for continuing investments in the retail network and the impact of the federal government's Goods and Services Tax, expected to be introduced on January 1, 1991.

TABLE 10

DISTRIBUTION OF LOANS BY INDUSTRY AND BY LOCATION OF ULTIMATE RISK

As at September 30

(\$ millions)

	1990	1989	1988	1987	1986
Domestic					
Atlantic provinces.....	\$ 4,904	\$ 4,642	\$ 4,192	\$ 3,590	\$ 3,058
Quebec.....	10,608	10,096	8,627	7,809	6,433
Ontario.....	35,716	31,252	27,366	20,674	16,590
Manitoba.....	3,369	2,904	2,759	2,543	2,347
Saskatchewan.....	2,712	2,997	2,993	2,854	2,702
Alberta.....	6,701	7,234	7,376	7,568	8,148
British Columbia.....	10,287	9,300	7,853	7,198	7,954
	74,297	68,425	61,166	52,236	47,232
Consisting of:					
Residential mortgages.....	24,800	21,345	18,136	14,576	11,507
Consumer instalment, credit card and other personal loans....	15,867	15,606	14,262	11,744	10,120
Real estate construction, development and management.....	6,292	5,148	3,616	3,328	2,976
Manufacturing.....	5,386	4,462	4,510	3,811	3,668
Merchandising.....	4,744	4,501	4,176	3,691	3,287
Financial institutions.....	4,228	4,034	4,041	3,023	2,791
Agriculture.....	3,045	3,039	3,030	3,118	3,283
Mining and energy.....	1,422	2,118	2,448	3,025	3,907
Transportation and communication.....	1,266	1,170	1,162	1,176	1,256
Other.....	7,247	7,002	5,785	4,744	4,437
	74,297	68,425	61,166	52,236	47,232
International					
Canadian risk.....	1,372	1,318	1,132	1,001	909
U.S.A.....	6,696	5,835	4,619	4,300	4,729
Europe, Middle East and Africa.....	5,309	5,120	4,645	4,773	5,001
Latin America and Caribbean.....	4,976	5,341	6,068	6,650	6,166
Asia Pacific.....	1,343	1,425	1,798	1,700	2,150
Country risk provision.....	(2,012)	(2,602)	(2,054)	(1,930)	(628)
	17,684	16,437	16,208	16,494	18,327
Total loans.....	91,981	84,862	77,374	68,730	65,559
Securities.....	9,936	8,887	8,543	7,335	9,931
Deposits with other banks.....	7,426	6,646	7,547	11,092	14,302
Total earning assets	\$109,343	\$100,395	\$93,464	\$87,157	\$89,792

INCOME TAXES

As shown in Note 12 to the financial statements on page 36, the Bank's total income tax provision in 1990 amounted to \$532 million, compared to \$347 million in 1989. The higher taxes this year reflect a higher level of earnings.

The income tax amount for 1990, as it appears in the consolidated Statement of Income, implies an effective tax rate of 36.3%. However, the Bank, like other corporations in Canada, was actually subject to a combined federal and provincial statutory income tax rate of 41.8%. The difference between the statutory and effective tax rates reflects two major factors: the tax-exempt nature of income earned from "loan substitute" securities, and lower tax rates applicable to certain subsidiaries.

As shown in Note 2 to the financial statements on page 30, in 1990 the Bank held a \$1.2 billion portfolio of loan substitute securities such as income debentures, small business bonds and term preferred shares. Income from these securities is exempt from tax and the Bank earns a lower rate of interest

or dividend on them than on loans of equal value, while the issuer benefits from lower borrowing costs. The interest foregone by the Bank reduces its net interest income in the Statement of Income.

This foregone interest is the taxable equivalent adjustment referred to in the net interest income section of this report on page 6. If income taxes in the Statement of Income were adjusted to reflect this amount, they would increase by \$92 million in both 1990 and 1989, to \$647 million and \$397 million respectively.

The lower effective tax rate also reflects the fact that certain subsidiaries are based in jurisdictions where tax rates are lower than the Bank's 41.8% tax rate in Canada. A reconciliation of the statutory and effective income tax rates for 1990 and 1989 is provided in Note 12 to the financial statements.

In addition to income taxes in 1990, the Bank paid business and capital taxes amounting to \$108 million and various property taxes totalling \$43 million.

TABLE 11

DISTRIBUTION OF EARNING ASSETS BY LOCATION OF ULTIMATE RISK (1)

As at September 30

(\$ millions)

	1990	1989	1988	1987	1986
Canada	\$ 85,158	\$ 79,037	\$69,521	\$59,912	\$55,571
United States	8,076	7,155	6,741	7,446	8,309
Europe, Middle East and Africa					
United Kingdom	4,847	3,888	3,807	4,318	4,936
France	1,046	806	927	994	1,331
Switzerland	776	297	405	649	931
Germany	630	533	656	841	1,171
Belgium	117	67	713	694	816
Other Europe	1,758	1,614	1,878	2,242	2,697
Middle East and Africa	209	239	325	357	508
	9,383	7,444	8,711	10,095	12,390
Latin America and Caribbean					
Brazil	1,328	1,227	1,298	1,434	1,629
Puerto Rico	978	787	872	852	915
Bahamas	799	734	681	685	664
Argentina	519	460	482	453	479
Mexico	470	851	1,351	1,504	1,557
Venezuela	237	518	555	647	720
Other	1,056	1,175	1,425	1,496	1,753
	5,387	5,752	6,664	7,071	7,717
Asia Pacific					
Japan	1,949	2,211	2,118	2,676	3,744
Hong Kong	356	385	549	385	507
South Korea	77	41	165	123	449
Other	969	972	1,049	1,379	1,733
	3,351	3,609	3,881	4,563	6,433
Country risk provision	(2,012)	(2,602)	(2,054)	(1,930)	(628)
Total	\$109,343	\$100,395	\$93,464	\$87,157	\$89,792

(1) Earning assets are defined as all assets (including assets funded in local currencies) except Cash and deposits with Bank of Canada, Customers' liability under acceptances, Land, buildings and equipment and Other assets. Individual countries are indicated where assets exceed 1/2 of 1% of total earning assets.

PORTFOLIO RISK MANAGEMENT

The quality of a bank's loan portfolio determines, to a great extent, a bank's level of profitability. Loan portfolio quality is a function of a conservative lending policy, diversification (by industry, geography and loan size), limited exposure to high-risk financings, and early detection and aggressive management of problem situations.

As described below, Royal Bank places great importance on these major requirements for sound loan quality.

First, the Bank has a conservative lending policy and established country and other prudential limits, which take economic, political, social and strategic considerations into account. These limits are closely monitored and regularly reviewed in order to remain current with the most recent developments in Canada and abroad. The Bank also regularly monitors industry risk and its exposure to major sectors.

As shown in Table 10, the Bank's loans are well diversified by industry and geography. In Canada, no industry accounts for more than 9% of domestic loans and no province besides Ontario accounts for more than 15% of loans. The exposure in Ontario reflects the greater concentration of population and businesses in that province. Also, as shown in

Table 11, no country, apart from Canada and the United States, accounts for more than 5% of the Bank's total earning assets.

It is also the Bank's policy to limit loan authorizations to any independent corporate borrower to 15% and, in very rare cases, to not more than 25% of shareholders' equity. A company is considered an independent borrower, despite being part of a group, if it is managed independently and its cash flows are not dependent upon group members. At October 31, 1990, there were only three independent corporate borrowers with authorizations exceeding this 15% guideline, and none had outstanding loans in excess of this limit.

Second, the Bank has consciously limited its lending to high-risk areas such as leveraged buyouts (LBOs) and U.S. commercial real estate. At year-end 1990, LBO loans stood at \$1.1 billion or 1% of the total loan portfolio and 20% of common shareholders' equity.

Loans outstanding to the U.S. commercial real estate sector were \$1.1 billion or 20% of common equity at year end. More than half the U.S. exposure is to large Canadian developers.

TABLE 12

LDC EXPOSURE*As at October 31*

(\$ millions)

	1990	1989	1988	1987	1986
Exposure (1)					
Brazil	\$1,399	\$1,245	\$1,293	\$1,402	\$1,562
Mexico	985	996	1,426	1,505	1,557
Argentina	474	405	446	427	452
Venezuela	255	539	585	668	720
Poland	186	158	185	202	124
Dominican Republic	174	184	204	205	217
Others	495	633	892	988	1,162
	3,968	4,160	5,031	5,397	5,794
Country risk provision (2)	(2,844)	(2,927)	(2,278)	(2,019)	(628)
Exposure, net of country risk provision	\$1,124	\$1,233	\$2,753	\$3,378	\$5,166
Country risk provision, as a percent of exposure	72%	70%	45%	37%	11%
Common shareholders' equity	\$5,308	\$4,632	\$4,133	\$3,352	\$3,637
Exposure, net of country risk provision, as a percent of common shareholders' equity	21%	27%	67%	101%	142%

(1) Exposure in the 43 designated countries represents the face value of cross-border exposure (i.e. excluding locally funded business). Balances shown are net of any specific provisions.

(2) For ratio purposes, the above-noted country risk provision has been grossed up to include previously-recorded writedowns on loan exchanges.

The Bank has commercial real estate loans of \$6.3 billion in Canada. The Bank has avoided significant difficulties in this sector by supporting developers with a strong balance sheet, proven sources of cash flow, and with whom the Bank has had a long-standing relationship. Also, the Bank requires a significant equity participation in each real estate project from the developer.

The third requirement for sound loan quality is the ability to quickly detect problems within the portfolio. The Bank's ability in that area is strengthened by its Risk Asset Monitoring System which tracks, among other criteria, loan quality, industry exposures and geographic concentrations. Each corporate exposure is rated 1 to 6 (with 1 being the highest quality) and is reviewed regularly, with ratings confirmed or amended as required.

LDC DEVELOPMENTS

With regard to LDCs, the Bank sold \$417 million of loans, while absorbing \$253 million of Libra Bank's LDC loans, as mentioned on page 5. Largely through these transactions, the Bank lowered the face value of its LDC exposure to \$3,968 million, as shown in Table 12. With a country risk provision of \$2,844 million or 72% of such exposure, total net LDC loans closely reflect current secondary market values. Net exposure has fallen to 21% of common shareholders' equity, from 27% a year ago.

Also in fiscal 1990, under the terms of the debt restructuring plan for Mexico devised by U.S. Treasury Secretary Nicholas Brady, the Bank exchanged its medium and long-

term Mexican loans, with a face value of \$965 million and a book value of \$841 million, for bonds carrying a reduced interest rate of 6.25%. The bonds are secured by U.S. Treasury 30-year zero-coupon bonds, with 18 months of interest payments guaranteed. These bonds have been classified as trading account securities and have accordingly been written down to their fair market value of \$423 million. The resulting loss of \$418 million has reduced the Bank's country risk provision by that same amount.

A similar agreement was negotiated with Venezuela towards the end of fiscal 1990. The Bank has tendered \$224 million of Venezuelan loans for 6.75% bonds, also secured by U.S. Treasury 30-year zero coupon bonds, with 14 months of interest guaranteed. The bonds also carry detachable warrants, which have value only after 6 years, if Venezuelan oil prices remain above \$26, adjusted for inflation. The agreement is expected to take effect in early fiscal 1991.

NON-PERFORMING LOANS

Non-performing loans consist of non-accrual loans and renegotiated reduced-rate loans. Table 13 provides a detailed breakdown of the Bank's non-accrual loans, after deducting the allowance for credit losses.

At October 31, 1990, total net non-accrual loans, excluding those to LDCs, were \$1,361 million, up from \$623 million a year ago. Such net non-accrual loans now account for 1.5% of total loans, compared to .7% at the end of 1989 and 3.5% at the end of 1986.

TABLE 13

DISTRIBUTION OF NON-PERFORMING LOANS (<i>net of allowance for credit losses</i>) BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS As at October 31 (\$ millions)					
	1990	1989	1988	1987	1986
Non-accrual loans					
Domestic					
Atlantic provinces	\$25	\$14	\$6	\$11	\$9
Quebec	90	32	41	140	89
Ontario	483	105	89	60	83
Manitoba	57	34	47	43	36
Saskatchewan	83	86	117	145	100
Alberta	91	113	321	593	960
British Columbia	217	48	113	154	290
Total Domestic	1,046	432	734	1,146	1,567
Consisting of:					
Residential mortgages	83	31	21	15	22
Consumer instalment and other personal loans	80	40	32	42	34
Agriculture loans	100	100	161	216	162
Independent business loans	97	51	57	85	106
Corporate loans	686	210	463	788	1,243
Total Domestic	1,046	432	734	1,146	1,567
International					
U.S.A.	98	91	153	236	369
Europe, Middle East and Africa	169	53	99	156	233
Latin America and Caribbean	43	41	32	80	52
Asia Pacific	5	6	9	24	73
Total International, excluding LDC loans	315	191	293	496	727
Total, excluding LDC loans	1,361	623	1,027	1,642	2,294
LDC loans					
Carrying value	2,391	2,453	1,940	1,648	486
Country risk provision	(2,012)	(2,602)	(2,054)	(1,930)	(628)
Total LDC loans	379	—	—	—	—
Total	\$1,740	\$623	\$1,027	\$1,642	\$2,294
Renegotiated reduced-rate loans					
Domestic	\$94	\$126	\$109	\$86	\$71
International	1	1	2	2	6
Total	\$95	\$127	\$111	\$88	\$77
Total loans					
Domestic					
Residential mortgages	\$24,988	\$21,686	\$18,331	\$14,854	\$11,635
Consumer instalment and other personal loans	16,598	15,386	13,846	10,552	9,064
Loans to businesses and governments	34,813	31,026	29,165	27,596	27,201
Total Domestic	76,399	68,098	61,342	53,002	47,900
International	16,295	15,141	16,439	16,291	18,034
Total	\$92,694	\$83,239	\$77,781	\$69,293	\$65,934
Non-accrual loans as a percent of total loans					
Domestic					
Residential mortgages	.3%	.1%	.1%	.1%	.2%
Consumer instalment and other personal loans	.5%	.3%	.2%	.4%	.4%
Loans to businesses and governments	2.5%	1.2%	2.3%	3.9%	5.6%
Total Domestic	1.4%	.6%	1.2%	2.2%	3.3%
International, excluding LDC loans	1.9%	1.3%	1.8%	3.0%	4.0%
Total, excluding LDC loans	1.5%	.7%	1.3%	2.4%	3.5%

TABLE 14

INTEREST EARNED ON AVERAGE NON-ACCRUAL LOANS (*net of allowance for credit losses*)

For the year ended October 31

(\$ millions)

	1990	1989	1988	1987	1986
Domestic					
Average non-accrual loans.....	\$732	\$552	\$916	\$1,355	\$1,347
Interest earned (1).....	\$(4)	\$7	\$57	\$39	\$14
International					
Average non-accrual loans.....	\$261	\$238	\$386	\$930	\$800
Interest earned (1)					
Loans to LDCs.....	\$62	\$150	\$150	\$(17)	\$52
Other loans.....	—	12	18	8	25
Total.....	\$62	\$162	\$168	\$(9)	\$77
Total					
Average non-accrual loans.....	\$993	\$790	\$1,302	\$2,285	\$2,147
Interest earned (1).....	\$58	\$169	\$225	\$30	\$91

(1) Interest earned on average non-accrual loans comprises interest received on non-accrual loans net of interest reversals on newly-classified loans.

Most of this year's \$738 million increase occurred in domestic operations, where balances rose \$614 million to \$1,046 million. The largest increase, amounting to \$476 million, was in the corporate sector. Two accounts, one in the forestry industry and one in the technology sector, together accounted for \$350 million of the increase.

Domestically, non-accrual residential mortgages increased \$52 million in 1990, while consumer instalment and other personal loans were up \$40 million.

Non-accrual independent business loans rose \$46 million from a year ago, while non-accrual agriculture loans were unchanged.

At year-end 1990, domestic non-accrual residential mortgages and non-accrual consumer instalment and other personal loans represented .3% and .5% respectively of related total loans. This compares to a ratio of 2.5% for domestic non-accrual loans to businesses and governments.

International net non-accrual loans, excluding loans to LDCs, were up \$124 million during 1990. A computer leasing company in Europe accounted for the major portion of this increase.

At year end, the Bank's net non-accrual LBO loans totalled only \$22 million or 2.0% of the LBO portfolio. Net non-accrual commercial real estate loans amounted to 2.3% of total real estate outstandings.

In accordance with a guideline issued by the Superintendent of Financial Institutions, the Bank elected to classify its bonds received in exchange for Mexican loans, under the terms of the Brady Plan, as trading account securities. As explained earlier, the country risk provision was simultaneously reduced by the writedown of the bonds to fair market

value. Accordingly, net non-accrual loans to LDCs increased \$379 million at year-end 1990, strictly as a result of this classification. Gross non-accrual loans to LDCs of \$2,391 million were relatively unchanged during 1990.

LOAN LOSSES

As shown in Table 15, the Bank recorded a provision for loan losses of \$420 million in 1990, consisting entirely of specific provisions. This compared to a total provision of \$1,380 million in 1989, consisting of \$1,100 million of country risk provisions and \$280 million of specific provisions.

Domestically, loan losses increased \$152 million during 1990. Corporate loan losses rose \$109 million, while losses on consumer instalment, credit card and other personal loans increased \$51 million. Independent business losses were up \$10 million, whereas losses on the agriculture portfolio declined for the second consecutive year, this year by \$18 million. Losses on residential mortgages were unchanged from a year ago, at \$1 million.

Internationally, the Bank recorded a net recovery of \$17 million, compared to a \$5 million non-LDC recovery last year. The Bank saw no requirement for further LDC provisioning this year. Net LDC exposure reflects current secondary market values.

Total specific provisions amounted to .5% of average loans this year, compared to .4% in 1989. While loan losses will likely increase further next year if the recession in Canada persists, the Bank believes that its greater loan diversification and its cautious approach to high-risk financings should ensure that its loss ratio remains at a level significantly below the 1.3% and 1.1% experienced in 1987 and 1986 respectively.

TABLE 15

DISTRIBUTION OF LOAN LOSSES BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

For the year ended October 31

(\$ millions)

	1990	1989	1988	1987	1986
Allowance for credit losses					
Balance at beginning of year	\$3,042	\$2,637	\$2,656	\$1,182	\$ 879
Provision for loan losses	420	1,380	750	2,300	975
Write-offs, net of recoveries	(412)	(409)	(508)	(723)	(688)
Losses realized on sales and exchanges of loans to troubled countries	(588)	(463)	(150)	(88)	—
Translation adjustments	1	(103)	(111)	(15)	16
Balance at end of year	\$2,463	\$3,042	\$2,637	\$2,656	\$1,182
Loan losses					
Domestic					
Atlantic provinces	\$ 17	\$ 13	\$ 11	\$ 6	\$ 9
Quebec	139	38	73	49	33
Ontario	152	62	45	49	52
Manitoba	13	17	20	15	16
Saskatchewan	41	63	50	48	27
Alberta	57	68	43	419	327
British Columbia	18	24	78	89	76
Total Domestic	437	285	320	675	540
Consisting of:					
Residential mortgages	1	1	—	—	3
Consumer instalment, credit card and other personal loans	117	66	62	43	51
Agriculture loans	25	43	69	59	66
Independent business loans	76	66	60	65	55
Corporate loans	218	109	129	508	365
Total Domestic	437	285	320	675	540
International					
Specific provisions					
U.S.A.	(6)	11	76	105	115
Europe, Middle East and Africa	(12)	1	5	22	(3)
Latin America and Caribbean	2	(19)	(7)	90	38
Asia Pacific	(1)	2	(4)	8	20
	(17)	(5)	70	225	170
Country risk provision	—	1,100	360	1,400	265
Total International	(17)	1,095	430	1,625	435
Total	\$420	\$1,380	\$750	\$2,300	\$975
Average loans					
Domestic					
Residential mortgages	\$23,740	\$20,003	\$16,279	\$12,985	\$10,285
Consumer instalment, credit card and other personal loans	16,389	14,794	12,897	10,820	9,784
Loans to businesses and governments	32,702	29,555	26,946	26,201	26,277
Total Domestic	72,831	64,352	56,122	50,006	46,346
International	15,144	15,193	15,858	17,616	19,139
Total	\$87,975	\$79,545	\$71,980	\$67,622	\$65,485
Loan losses as a percent of average loans					
Domestic					
Residential mortgages	—	—	—	—	—
Consumer instalment, credit card and other personal loans	.7%	.4%	.5%	.4%	.5%
Loans to businesses and governments	1.0%	.7%	1.0%	2.4%	1.8%
Total Domestic	.6%	.4%	.6%	1.4%	1.2%
International, excluding country risk provision	(.1)%	—	.4%	1.3%	.9%
Total, excluding country risk provision	.5%	.4%	.5%	1.3%	1.1%

TABLE 16

INTEREST RATE SENSITIVITY POSITION As at October 31, 1990 (\$ millions)							Non- interest sensitive	Total
	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year			
Assets								
Cash and deposits with Bank of Canada						\$ 1,240		\$ 1,240
Deposits with other banks and Loans ...	\$51,688	\$12,425	\$6,753	\$9,836	\$17,904	1,611		100,217
Securities	2,271	3,496	1,056	337	1,756	533		9,449
Customers' liability under acceptances ..						10,369		10,369
Land, buildings and equipment						1,800		1,800
Other assets						2,863		2,863
	\$53,959	\$15,921	\$7,809	\$10,173	\$19,660	\$18,416		\$125,938
Liabilities								
Deposits (1)	\$55,046	\$13,763	\$8,259	\$6,651	\$9,181	\$6,268		\$ 99,168
Liabilities of subsidiaries other than deposits	661	5	5	21	125	—		817
Bank debentures	733	350	117	—	1,099	—		2,299
Acceptances						10,369		10,369
Other liabilities						6,832		6,832
Shareholders' equity						6,453		6,453
	\$56,440	\$14,118	\$8,381	\$6,672	\$10,405	\$29,922		\$125,938
Interest rate sensitivity gap	\$(2,481)	\$1,803	\$(572)	\$3,501	\$9,255	\$(11,506)		—
Cumulative interest rate sensitivity gap	\$(2,481)	\$(678)	\$(1,250)	\$2,251	\$11,506	—		—

(1) The notional principal amounts of off-balance sheet items such as future rate agreements and interest rate swaps are incorporated in "Deposits". These products are used to manage interest rate risk without changing the total amount of the liability.

INTEREST RATE SENSITIVITY AND LIQUIDITY MANAGEMENT

Overall policies and limits for managing interest rate risk and liquidity levels are established by the Assets and Liabilities Committee.

Interest Rate Sensitivity

Interest rate sensitivity refers to the sensitivity of earnings to changes in interest rates. When assets and the liabilities used to fund them mature or reprice at different times, the yields on earning assets and the rates paid on interest-bearing liabilities do not respond concurrently to changes in interest rates. These "mismatches" in repricing dates or "interest rate gaps" result in interest rate risk. A "positive" or "asset sensitive" gap exists when more assets reprice earlier than liabilities. Conversely, a "negative" or "liability sensitive" interest rate gap exists when more liabilities reprice earlier than assets.

A positive gap position is favourable during a period of rising interest rates and unfavourable when interest rates are falling. For example, if a six-month mortgage loan is funded with a one-year term deposit and rates are rising, at the mortgage repricing date the yield on the mortgage would increase while the cost on the deposit would remain unchanged. This would enhance the net interest margin until the term deposit repricing date was reached. If, however, rates were falling instead of rising, the six-month mortgage would reprice at a lower rate quicker than the term deposit, and the net interest margin would be compressed.

Similarly, a negative gap position is favourable during a period of falling interest rates and unfavourable when interest rates are rising. For example, a one-year mortgage loan funded by a one-month term deposit would result in wider net interest margins if rates were to fall, and narrower margins if rates were to rise.

Gap positions initially result from customers' varying term preferences for loans and deposits. However, the Bank can manage its gap position by changing the mix of assets and liabilities and by using various interest rate risk management products such as future rate agreements and interest rate swaps.

If a position is fully matched, the risk from a future interest rate change is eliminated. However, the overall profit potential is also reduced. The Bank continually weighs opportunities for improved returns arising from mismatched positions against the potential costs of unfavourable interest rate changes. The need to respect liquidity guidelines remains an overriding consideration throughout these deliberations. Since liquidity considerations have priority over interest rate exposure factors, forced gap positions occasionally result, but are rarely significant.

Table 16 reflects the Bank's interest rate sensitivity position at October 31, 1990, with gaps identified at various intervals. It should be emphasized that these figures indicate a position at only one point in time. The Bank can quickly change its position quite significantly, depending upon its expectation of future interest rates and the preferences of its clients.

TABLE 17

CAPITAL FORMATION*For the year ended October 31**(\$ millions)*

	1990	1989	1988	1987	1986
Net income (loss)	\$965	\$529	\$712	\$(288)	\$452
Income tax and other amounts in retained earnings	3	(1)	(1)	(34)	(56)
Capital from operations	968	528	711	(322)	396
Less: dividends	(433)	(378)	(346)	(315)	(281)
Internally generated capital	535	150	365	(637)	115
External sources of capital					
Debentures	181	118	479	(547)	319
Preferred stock	(5)	197	(58)	(13)	148
Common stock	141	348	416	352	231
Total external sources of capital	317	663	837	(208)	698
Total increase (decrease) in capital	\$852	\$813	\$1,202	\$(845)	\$813

The cumulative gap positions represent the sum of all gap figures at the repricing date shown and indicate the extent to which earnings could be affected by interest rate changes if no action were taken. At the one-year maturity, the Bank had a cumulative positive gap position of \$2.3 billion, which represented less than 2% of total assets.

Liquidity Management

The objective of liquidity management is to have funds available at all times to meet liability withdrawals and maturities, and to promptly satisfy all financial commitments worldwide. Effective liquidity management is necessary to maintain market confidence, have the flexibility to capitalize on opportunities for business expansion, and preserve the Bank's capital base.

A stable and diversified funding base is essential to prudent liquidity management. The diversification and size of the Bank's deposit base is reflected in Note 7 to the financial statements on page 32. Also, the size of the Bank's consumer deposits is highlighted in Table 3 on page 4. These "core" deposits represent a well-diversified, stable and relatively low-cost source of funding. At year-end 1990, consumer deposits represented 61% of total deposits, up from 49% in 1986.

Among the Bank's other liquidity management capabilities are careful monitoring of loan and deposit maturity structures, policy limits governing the maximum net outflow of funds in a given time frame, and access to liquid assets, such as cash, deposits with other banks and securities.

In Canada, the Bank currently maintains \$1.3 billion of primary reserves, which include cash on hand and deposits with the Bank of Canada. Moreover, as required by law, the Bank maintains \$1.2 billion of secondary reserves in the form of Government of Canada Treasury Bills. These reserve requirements would be phased out under the federal government's proposed financial services reform legislation.

In addition to these statutory liquidity reserves, the Bank, under established internal policies, maintains supplementary reserves in the form of very liquid assets. These amounted to \$3.1 billion at October 31, 1990.

Outside Canada, the Bank's liquidity policy entails the diversification of funding sources, close monitoring of the maturity profiles of loans and deposits, limits on net cash outflow and supplementary reserves in very liquid foreign assets. As a major participant in the Eurodollar market, the Bank has access to deposits from other large international banks. In turn, the Bank makes short-term deposits with other large banks, whose creditworthiness it continually monitors. At year end, the Bank had \$6.0 billion of deposits with other banks, representing 18% of foreign currency assets.

The Bank's total liquid assets represented 14% of total assets at year-end 1990, unchanged from a year ago.

CAPITAL FUNDS MANAGEMENT

The Bank's capital consists of common and preferred shareholders' equity and subordinated debentures. Capital is used to expand and update the Bank's premises and equipment and to undertake initiatives in new businesses. A strong capital base not only maintains the confidence of shareholders, depositors and other creditors, it also allows the Bank to withstand losses incurred in the normal course of business.

Capital management requires balancing the Bank's objectives of safety and stability with shareholders' expectations of a satisfactory return on investment. Using long-term debt and preferred shares to supplement common shareholders' equity assists in meeting this goal.

At October 31, 1990, the Bank's total capital was \$8.8 billion, an increase of \$852 million or 11% from a year ago. Common shareholders' equity totalled \$5.3 billion, up \$676 million from 1989 due to \$535 million of internally generated capital and \$141 million raised through the Bank's Shareholder Dividend and Share Purchase Plan.

TABLE 18

RISK-BASED CAPITAL RATIOS*As at October 31**(\$ millions)*

	1990	1989	1988
Tier I capital			
Common shareholders' equity	\$5,308	\$4,632	\$4,133
Non-cumulative preferred shares	400	400	—
Minority interest	98	98	99
Less: goodwill (1)	(94)	(34)	—
	5,712	5,096	4,232
Tier II capital			
Permanent preferred shares and debentures	989	991	1,012
Non-permanent preferred shares and debentures (2)	1,827	1,693	1,532
Less: investment in associated corporations (20% – 50% owned)	(3)	(146)	(161)
	2,813	2,538	2,383
Total capital	\$8,525	\$7,634	\$6,615
Total risk-adjusted assets and off-balance sheet items	\$115,035	\$106,218	\$99,801
Tier I capital to risk-adjusted assets	5.0%	4.8%	4.2%
Tier II capital to risk-adjusted assets	2.4%	2.4%	2.4%
Total capital to risk-adjusted assets	7.4%	7.2%	6.6%

(1) In accordance with instructions of the Superintendent of Financial Institutions, as a transitional measure, goodwill existing before October 31, 1988 must be deducted from Tier I capital in the following proportions: nil until 1989, $\frac{1}{3}$ in 1990, $\frac{2}{3}$ in 1991 and in full in 1992.

(2) Preferred shares and debentures which are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

Total debentures increased \$181 million during 1990, reflecting a \$200 million issue of 10-year 11.75% debentures in the fourth quarter, offset by sundry redemptions and translation adjustments on U.S. dollar-denominated debentures.

Subsequent to year end, the Bank completed two separate private placements, each of 9 1/2-year \$100 million debentures.

As shown in Table 18, at October 31, 1990, the Bank's Tier I and Total capital ratios, under the transitional BIS rules, were 5.0% and 7.4% respectively, up from 4.8% and 7.2% at year-end 1989. The \$200 million of debentures issued after year-end 1990 would raise the Total capital ratio to 7.6%.

A 5-year history of the Bank's capital formation appears in Table 17. Internally generated capital totalled \$535 million in 1990, about the same amount generated in the two previous years combined. This was achieved notwithstanding higher dividend payments this year, and can be attributed largely to no LDC loss provisioning in 1990.

The Bank paid out \$1.16 in dividends per common share this year, up 5% from \$1.10 in 1989.

In addition to capital funds, the Bank has significant values which are not included in regulatory capital adequacy measures. Among these is the substantial investment in fixed assets. The Bank's land and buildings world-wide are carried on the balance sheet at a net book value of \$864 million. Management estimates that the market value of these properties exceeds this book value by at least \$1 billion.

Also, the Bank's pension fund had a funding excess of \$234 million at January 1, 1990, as shown in Note 17 to the financial statements on page 37. This excess represents the difference between the adjusted market value of pension fund assets and the actuarially computed present value of accrued pension benefits.

RISK-BASED CAPITAL

Canadian banks' regulatory capital is measured using a risk-based approach developed in 1988 by the Bank for International Settlements (BIS) and discussed below.

Risk-Adjusted Assets and Off-Balance Sheet Items

The BIS framework requires standard "risk values" to be determined for both off-balance sheet and on-balance sheet items and for the aggregate values to be weighed against a common definition of capital. In determining risk values, all off-balance sheet items are initially converted to "credit equivalent amounts". For credit instruments such as guarantees, letters of credit and commitments to extend credit, the credit equivalent amounts are determined by multiplying the principal or nominal values by appropriate "credit conversion factors", which can range from 0% to 100% depending upon the nature of the instrument and the original term to maturity. Commitments to extend credit having an original term to maturity greater than one year have a credit conversion factor of 50%.

TABLE 19

RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET ITEMS

As at October 31

(\$ millions)

Assets	Balance sheet amount	Principal risk weight	Risk-adjusted balance			
			1990	1989		
Cash and deposits with Bank of Canada	\$ 1,240	0%	\$ —	\$ —		
Deposits with other banks	7,523	20%	1,530	1,399		
Securities issued or guaranteed by Canada, provinces, municipalities or other OECD countries	4,817	0-20%	98	73		
Other securities	4,632	100%	4,616	3,266		
Loans issued or guaranteed by Canada, provinces, municipalities or other OECD countries	5,620	0-20%	312	235		
Mortgages	26,971	0-50%	11,476	9,804		
Other loans	60,103	100%	60,103	55,046		
Customers' liability under acceptances	10,369	100%	10,192	10,589		
Other assets	4,663	100%	4,186	4,256		
	\$125,938		\$ 92,513	\$ 84,668		
Off-balance sheet items (1)						
	Contract – amount	Credit – conversion factor	Credit – equivalent amount	Principal risk weight	Risk-adjusted balance	
					1990	1989
Credit instruments						
Guarantees and standby letters of credit						
Financial	\$ 5,265	100%	\$ 5,265	20-100%	\$ 5,214	\$ 4,824
Non financial	1,372	50%	686	20-100%	679	586
Documentary and commercial letters of credit	1,187	20%	237	100%	237	201
Commitments to extend credit; original term to maturity						
Greater than 1 year	27,619	50%	13,810	100%	13,450	13,833
Less than or equal to 1 year	38,056	0%	—	0%	—	—
Note issuance/Revolving underwriting facilities	799	50%	399	100%	376	330
Foreign exchange and interest rate contracts						
Foreign exchange contracts	211,210	(2)	6,920	0-50%	1,718	1,201
Foreign currency and interest rate futures	10,033	(3)	—	0%	—	—
Future rate agreements	48,122	(2)	53	0-50%	15	13
Currency and interest rate swaps	106,041	(2)	3,319	0-50%	787	535
Foreign currency and interest rate options	19,609	(3)	176	0-50%	46	27
	\$469,313		\$ 30,865		\$ 22,522	\$ 21,550
Total risk-adjusted assets and off-balance sheet items					\$115,035	\$106,218

(1) Off-balance sheet items, except those relating to guarantees and letters of credit, are as at September 30.

(2) Foreign exchange and interest rate contracts are converted to credit equivalent amounts by adding (i) the total replacement cost (obtained by "marking to market") of all of its contracts with positive value and (ii) an amount for potential future credit exposure on the basis of the total contract amount split by remaining term to maturity as follows:

Remaining term to maturity	Foreign exchange contracts	Interest rate contracts
14 days or less	nil	nil
Greater than 14 days but less than 1 year	1%	nil
Greater than 1 year	5%	0.5%

(3) Foreign currency and interest rate futures and written options are traded on exchanges and are subject to daily margining requirements. Therefore, such instruments are deemed to have no additional credit risk.

For foreign exchange and interest rate contracts, the credit equivalent amounts are determined by adding the current exposure (i.e. the replacement cost obtained by marking-to-market those contracts with positive value) and the estimated potential exposure (i.e. the amounts obtained by multiplying all contract amounts by percentages ranging from 0% to 5% depending upon the nature of the instrument and

the remaining term to maturity). The nature of the Bank's portfolio of foreign exchange and interest rate contracts is such that it entails relatively minimal credit risk under BIS definitions.

The credit equivalent amounts for off-balance sheet items along with the on-balance sheet assets are then multiplied by appropriate "risk weights" in order to determine risk values.

The risk weights are based on the relative credit risk of the counter-party and range from 0% for categories such as claims on or guaranteed by the government of Canada and other countries belonging to the OECD, up to 100% for categories such as consumer and corporate loans. The Bank's significant portfolio of residential mortgages is subject to a risk weight of 50%.

As detailed in Table 19, the Bank's risk-adjusted assets and off-balance sheet items totalled \$115.0 billion at October 31, 1990, compared to \$106.2 billion at year-end 1989. Most of the \$8.8 billion increase was related to mortgages and other loans.

Risk-Based Capital Requirements

With respect to capital, the BIS framework allows for a four-year transition period from 1988 to 1992 and places strong emphasis on common shareholders' equity as the core element of capital, with appropriate recognition of other components of capital.

Capital is classified into two tiers. Tier I capital consists of common shareholders' equity, plus non-cumulative preferred shares and minority interest in subsidiaries, less goodwill. Tier II capital consists of other preferred shares and subordinated debentures, less investments in associated corporations (20%-50% owned). Non-permanent preferred shares and debentures which are within five years of maturity are subject to straight-line amortization over their remaining term. Also, non-permanent preferred shares and subordinated debentures are limited to 50% of Tier I capital. Tier II capital cannot exceed Tier I capital.

During the transition period, the Bank is required to deduct goodwill which arose prior to October 31, 1988 from Tier I capital on the basis of 1/3 of such goodwill in 1990, 2/3 in 1991 and the full amount of goodwill in 1992 and thereafter. Pre-1989 unamortized goodwill, which largely relates to the acquisition in 1988 of Dominion Securities Limited, amounts to \$192 million. One-third of this amount, or \$64 million, was deducted from Tier I capital this year. Also deducted was \$30 million in goodwill arising after October 31, 1988.

Also, while the Canadian framework establishes no initial minimum risk-based capital requirement, it required the Bank to achieve a minimum risk-based ratio for Total capital of 7.25% by the end of 1990 and will require a ratio of 8.0% by the end of 1992. In each case, as noted, at least half of the Total capital must be in the form of Tier I capital.

As also shown in Table 18, the Bank's ratios of Tier I and Total capital to aggregate risk-adjusted assets and off-balance sheet items, using the transitional BIS guidelines, were 5.0% and 7.4% respectively. These compare to 4.8% and 7.2% at the end of 1989 and 4.2% and 6.6% in 1988.

It should be noted that the Superintendent of Financial Institutions has defined capital in a more conservative manner than bank regulators in other countries – in particular, the United States, Japan and the United Kingdom. Most notably, U.S. and Japanese banks are permitted to include in Tier II capital any general provisions for loan losses, including those related to troubled countries. Such inclusions were not initially subject to limitation, although progressively greater limitations do now apply. These are 1.50% of risk-adjusted assets and off-balance sheet items by 1990 and 1.25% by 1992. Japanese banks are also permitted to include in Tier II capital 45% of the difference between the market value and the book value of their securities holdings. Also, in the U.K., unrealized gains resulting from recording real estate at current market values are included in capital.

Notwithstanding these differences, the Bank had no difficulty meeting the 1990 minimum Total capital ratio target of 7.25%. Also, through internally generated capital and planned debenture financing (\$200 million of which was issued subsequent to year end, as previously mentioned), the Bank expects to meet the 1992 Total capital ratio requirement of 8.0% by 1991, one year ahead of the deadline.

OFF-BALANCE SHEET ACTIVITIES

The Bank offers a variety of off-balance sheet products to its customers to meet their needs for liquidity and for foreign exchange and interest rate protection. Many of these latter products have been developed in recent years within increasingly sophisticated financial markets. The Bank uses certain of these products to manage exposures to movements in interest rates and foreign exchange. All off-balance sheet products are subject to normal credit standards, financial controls, and risk management and monitoring procedures.

Note 14 to the financial statements on page 36 provides a detailed breakdown of the Bank's various off-balance sheet items as at October 31, 1990 and 1989, expressed in terms of the principal or nominal value of the related commitment or contract. Precise definitions of the various activities appear in the Glossary of Financial Terms on pages 22 and 23.

For ease of discussion, the various items are grouped below under two main headings – credit instruments, and foreign exchange and interest rate contracts.

Credit Instruments

Credit instruments are those whose primary purpose is to ensure that funds are available to a customer as required. Such instruments include guarantees and letters of credit as well as commitments to extend credit.

With respect to risk, guarantees and standby letters of credit are no different than loans and other assets on the balance sheet. In contrast, documentary and commercial letters of credit, which are collateralized by the underlying shipments of goods to which they relate, have significantly less risk. At October 31, 1990, guarantees and standby letters of credit totalled \$6.6 billion, up \$400 million from a year ago. Documentary and commercial letters of credit amounted to \$1.2 billion, up \$200 million from year-end 1989.

With respect to commitments to extend credit, the amount of risk, though not easily quantifiable, is considerably less than the total unused commitments. To illustrate, most commitments to extend credit are contingent upon customers maintaining specific credit standards, such as a minimum amount of tangible net worth and working capital, or minimum financial ratios. Therefore, the credit risk associated with such commitments is greatly diminished. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results first from the possibility of unused portions of loan authorizations being drawn by the customer and, second, from these drawings subsequently not being repaid as due.

For risk management purposes, the Bank monitors credit commitments on the basis of original term to maturity, in recognition that longer-term commitments generally have a greater degree of risk than shorter-term commitments. At year end 1990, commitments to extend credit totalled \$66 billion, a reduction of \$4 billion or 6% from a year ago. Commitments with an original term to maturity greater than one year totalled \$27.6 billion, down \$1.2 billion from 1989. Only these longer-term commitments have deemed credit risk under BIS definitions, and are accordingly risk-weighted at 50%.

The BIS considers the risk associated with note issuance facilities and revolving underwriting facilities, which amounted to \$800 million for the Bank at year-end 1990, to be comparable to that of longer-term commitments to extend credit.

Foreign Exchange and Interest Rate Contracts

Foreign exchange and interest rate contracts allow customers to transfer, modify or reduce their foreign exchange and interest rate risks. Such contracts include foreign exchange forward contracts as well as foreign currency and interest rate futures, options and swaps.

The Bank enters into foreign exchange forward contracts both to service the needs of customers and to earn income as a trader in foreign exchange. In addition, the Bank uses such contracts to hedge the foreign exchange risk associated with its investments in foreign branches, subsidiaries and associated corporations. With the exception of hedging contracts, commitments entered into to buy a fixed amount of one currency

are generally offset by forward contracts to sell the same amount of that currency. The Bank maintains strict control limits on net open positions, that is, the difference between purchase and sale contracts, by both currency and term. The aggregate principal amount of foreign exchange contracts at October 31, 1990 was \$211 billion, an increase of \$31 billion or 17% from 1989. Most of the increase related to contracts of very short duration having no deemed credit equivalent or risk value amounts under BIS definitions.

In addition to serving customers' needs, the Bank utilizes interest rate futures, both in trading activities and in the management of interest rate risk associated either with specific assets and liabilities or with net balance sheet positions.

Future rate agreements, which are effectively tailor-made interest rate futures, are used by the Bank to service customers' needs and to manage interest rate risk. At year-end 1990, future rate agreements amounted to \$48 billion, a 46% increase from a year ago due to the greater demand for this product by customers and the greater use of this product by the Bank for its own interest rate risk management purposes.

The Bank is also active in foreign currency and interest rate options as a writer in order to earn fee income, and as a purchaser in order to manage foreign currency exposure and interest rate risk. Foreign currency and interest rate options amounted to \$20 billion at the end of 1990, an increase of 72% from a year ago due to greater customer demand and internal hedging use.

The Bank also enters into foreign currency and interest rate swaps as an intermediary between swapping counterparties in order to earn fee income, and as a principal in order to manage foreign currency and interest rate exposures. These balances totalled \$106 billion at October 31, 1990, an increase of \$27 billion or 34% from 1989, again partly as a result of customer demand and partly due to greater use of swaps for internal interest rate risk management.

As explained in Risk-Based Capital on page 18, there is negligible credit risk under BIS definitions associated with the outstanding amounts of futures, options and swaps.

Generally, the Bank manages the exposures related to foreign exchange and interest rate contracts both as part of overall borrowing limits granted to customers and as part of its trading activities. In either case, the related exposure can be analyzed in terms of market risk and credit risk, which is no different from the way the exposures related to balance sheet items are examined. It is important to recognize, however, that the amounts potentially at risk are only a small fraction of the principal amounts, which are normally used to express the volume of foreign exchange and interest rate contracts outstanding.

GLOSSARY OF FINANCIAL TERMS

ALLOWANCE FOR CREDIT LOSSES

The amount deemed adequate by management to absorb anticipated credit-related losses in the portfolio of loans, acceptances, guarantees, letters of credit and deposits with other banks. The allowance is increased by specific provisions, general provisions and country risk provisions, and is reduced by write-offs net of recoveries and by losses realized on sales and exchanges of loans to troubled countries.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The international organization in Basle, Switzerland, under whose auspices a final agreement on risk-based capital standards for international banks was developed.

BANKERS' ACCEPTANCE

A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a chartered bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

BASIS POINT

One one-hundredth of a percentage point.

COMMITMENTS TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

CURRENCY AND INTEREST RATE SWAPS

Transactions in which two parties exchange currencies and/or the related interest flows (e.g. fixed for floating rate or vice versa) on a specified notional principal for a specified period.

DEBENTURES

Direct unsecured obligations of the bank which are subordinated in right of payment to the claims of depositors and certain other creditors. Convertible debentures can be exchanged for shares at the option of the holder, the issuer, or both.

DOCUMENTARY AND COMMERCIAL LETTERS OF CREDIT

Written undertakings by the bank on behalf of its customer (typically an importer), authorizing a third party (e.g. an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

EARNINGS PER SHARE (EPS)

Basic EPS is net income, less preferred share dividends, divided by the average number of common shares outstanding for the period. Fully Diluted EPS is calculated using a) net income, less preferred share dividends, adjusted for the effect of convertible instruments and b) the average number of common shares which would have been outstanding in the period, assuming conversion of all convertible securities and exercise of all warrants outstanding at the beginning of the period or date of issue, if later.

FOREIGN CURRENCY AND INTEREST RATE FUTURES

Contractual obligations to buy or sell a foreign currency or a financial instrument on a future date at a specified price established on a commodity exchange.

FOREIGN CURRENCY AND INTEREST RATE OPTIONS

Contractual agreements in which the writer grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a set amount of foreign currency or a financial instrument at a set price.

FOREIGN CURRENCY TRANSLATION GAIN/LOSS

The unrealized gain or loss recorded when assets or liabilities denominated in foreign currencies are translated into Canadian dollars on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date.

FOREIGN EXCHANGE CONTRACT

A Foreign Exchange Forward Contract is a commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange. A Foreign Exchange Spot Contract is a commitment to buy or sell a fixed amount of foreign currency for delivery in the immediate future.

FUTURE RATE AGREEMENT (FRA)

A contract between two parties calling for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. When used as a hedge, an FRA protects against future movements in market interest rates.

GUARANTEES AND STANDBY LETTERS OF CREDIT

Primarily represent irrevocable assurances that the Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

HEDGE

A risk management technique to insulate financial results from price, interest rate, or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

LEVERAGED BUYOUT (LBO)

Purchase of a company financed mainly by bank loans, secured by the assets of the company being purchased, rather than by funds owned by the purchasers.

LIQUIDITY OR LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks and trading account securities.

LONDON INTER-BANK OFFERED RATE (LIBOR)

The interest rate at which first-class banks in London are prepared to offer U.S. dollar deposits to other first-class banks.

MARK TO MARKET

Valuation at market rates, as of the balance sheet date, of securities purchased for trading purposes and off-balance sheet transactions such as foreign exchange and interest rate contracts. Gains and losses resulting from price changes are reflected in income immediately.

MISMATCHES

A mismatch arises when the average remaining maturity of assets in a portfolio differs from that of liabilities. Interest rate exposure results, since a change in interest rates affects asset yields and liability costs at different times. Also referred to as gap positions or interest rate sensitivity gaps.

NET INTEREST INCOME

The difference between what a bank earns on loans and securities and what it pays on deposits and debentures. Called **Net Interest Margin** when expressed as a percentage of average total assets.

NON-PERFORMING LOANS

Non-performing loans consist of non-accrual and renegotiated reduced-rate loans. **Non-accrual loans** are those placed on a cash basis (i.e. interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectibility of principal or interest. Loans are automatically placed on a cash basis when payment of interest is ninety days past due, except in certain rare cases where management has determined that the collectibility of principal and interest is not in doubt.

Renegotiated reduced-rate loans are loans where, due to the weakened financial condition of the borrower, the terms have been modified to provide for a reduction in the interest rate below the prevailing market rate charged on similar loans to new borrowers.

NOTIONAL PRINCIPAL

The principal amount upon which interest payments are calculated for certain off-balance sheet instruments such as interest rate swaps and future rate agreements. The principal amount itself is not exchanged.

OFF-BALANCE SHEET PRODUCTS

A variety of products offered to customers to meet their needs for liquidity, foreign exchange and interest rate protection. The Bank uses certain of these products to manage its interest rate and foreign exchange rate risk. These products are often fee-based and do not involve the booking of assets and liabilities on the balance sheet.

PROVISION FOR LOAN LOSSES

A charge to income which is added to the allowance for credit losses. **Specific provisions** are established to reduce the book value of specific retail and commercial loans to estimated realizable values. **General provisions** are recorded as a prudential measure to recognize credit losses which cannot be determined on an individual loan basis. The **country risk provision** is established for possible losses on aggregate loans to a group of 43 financially troubled countries designated by the Superintendent of Financial Institutions.

RETURN ON ASSETS (ROA)

Net income expressed as a percentage of average total assets. Used, along with ROE, as a measure of profitability and as a basis for intra-industry performance comparison.

RETURN ON EQUITY (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

REVOLVING UNDERWRITING FACILITIES (RUFs) AND NOTE ISSUANCE FACILITIES (NIFs)

Revolving Underwriting Facilities are arrangements whereby a customer issues short-term notes supported by an undertaking by a bank that if the customer is unable to issue the notes at a predetermined price, the bank will buy them at a prescribed price or guarantee the availability of funds by providing standby credit. **Note Issuance Facilities** are similar to RUFs except that the bank underwrites only on a "best efforts basis" with no undertaking to buy unsold notes or make funds available.

RISK

Banking involves a number of different risks. **Credit risk** refers to the possibility that borrowers and others to whom the Bank has made commitments to extend credit will be unable to repay their obligations when due. It also includes the risk of default by counter parties to off-balance sheet transactions (sometimes referred to as transaction or settlement risk). **Liquidity Risk** refers to potential demands on the Bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions. **Price risk** refers to possible losses resulting from price changes, such as a decrease in the value of a portfolio of common shares. **Interest rate risk** refers to possible losses resulting from changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest income earned on a fixed yield mortgage portfolio. **Foreign exchange risk** refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment. Price and rate risks are hedged as far as is practical using a variety of financial instruments.

RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET ITEMS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet transactions is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

RISK-BASED CAPITAL RATIOS

The percentage of risk-adjusted assets and off-balance sheet items supported by capital (under three definitions). **Tier I capital** consists of common shareholders' equity, non-cumulative preferred shares and minority interest less goodwill. **Tier II capital** consists of other preferred shares and debentures at amortized values less investments in associated corporations. **Total capital** is the sum of Tier I and Tier II capital.

SECURITIZATION

Traditional bank assets, such as loans and mortgages, may be sold to a company which raises funds by issuing negotiable securities. The beneficial ownership of the assets is thereby shared among a large number of smaller investors.

TAXABLE EQUIVALENT ADJUSTMENT

An addition to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The financial statements were prepared in accordance with financial reporting requirements prescribed under the Bank Act and the related rules issued by the Superintendent of Financial Institutions. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedure manuals, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by an inspection staff which conducts periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Chief Inspector has full and unrestricted access to the Audit Committee of the Board of Directors which oversees management's responsibility for financial reporting. The Audit Committee is composed entirely of directors who are neither officers nor employees of the Bank.

The Superintendent of Financial Institutions, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Deloitte & Touche and Price Waterhouse, the independent auditors appointed by the shareholders of the Bank, have examined our financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Bank's financial reporting and the adequacy of the system of internal controls.

ALLAN R. TAYLOR
Chairman and Chief Executive Officer

J. E. BOLDUC
Executive Vice-President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Royal Bank of Canada

We have audited the consolidated statement of assets and liabilities of Royal Bank of Canada as at October 31, 1990 and 1989 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1990 and 1989 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles prescribed under the Bank Act.

DELOITTE & TOUCHE
PRICE WATERHOUSE
Chartered Accountants

Montreal, December 3, 1990

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(in thousands of dollars)

	October 31, 1990	October 31, 1989
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	\$ 1,240,527	\$ 1,364,801
Deposits with other banks	7,522,681	6,822,322
	8,763,208	8,187,123
Securities (note 2)		
Issued or guaranteed by Canada	3,303,773	3,332,601
Issued or guaranteed by provinces and municipal or school corporations	677,728	767,345
Other securities	5,467,557	3,889,545
	9,449,058	7,989,491
Loans (note 3)		
Day, call and short loans to investment dealers and brokers, secured	560,828	336,960
Loans to banks	1,492,658	1,264,076
Mortgage loans	26,970,982	23,523,982
Other loans	63,669,589	58,113,767
	92,694,057	83,238,785
Other		
Customers' liability under acceptances	10,368,801	10,700,562
Land, buildings and equipment (note 5)	1,800,202	1,508,691
Other assets (note 6)	2,862,701	3,034,906
	15,031,704	15,244,159
	\$125,938,027	\$114,659,558
LIABILITIES		
Deposits (note 7)		
Payable on demand	\$ 8,324,059	\$ 8,219,514
Payable after notice	36,794,830	33,654,488
Payable on a fixed date	54,049,108	47,312,273
	99,167,997	89,186,275
Other		
Cheques and other items in transit, net	345,238	281,690
Acceptances	10,368,801	10,700,562
Liabilities of subsidiaries other than deposits (note 8)	816,960	1,113,195
Other liabilities (note 9)	6,389,166	5,379,683
Minority interest in subsidiaries	97,518	97,800
	18,017,683	17,572,930
Subordinated debt		
Bank debentures (note 10)	2,298,925	2,118,399
Shareholders' equity		
Capital stock (note 11)		
Preferred	1,145,767	1,150,357
Common	2,450,322	2,309,236
Retained earnings	2,857,333	2,322,361
	6,453,422	5,781,954
	\$125,938,027	\$114,659,558

ALLAN R. TAYLOR
Chairman and Chief Executive Officer

JOHN E. CLEGHORN
President and Chief Operating Officer

CONSOLIDATED STATEMENT OF INCOME

(in thousands of dollars)

	Year ended October 31, 1990	Year ended October 31, 1989
Interest income		
Loans	\$11,163,465	\$ 9,916,478
Lease financing	124,189	130,990
Securities	1,020,471	970,530
Deposits with banks	665,583	675,577
	<u>12,973,708</u>	<u>11,693,575</u>
Interest expense		
Deposits	9,091,924	7,772,125
Bank debentures	219,953	205,735
Other	67,666	91,035
	<u>9,379,543</u>	<u>8,068,895</u>
Net interest income	<u>3,594,165</u>	<u>3,624,680</u>
Provision for loan losses	<u>420,000</u>	<u>1,380,000</u>
	<u>3,174,165</u>	<u>2,244,680</u>
Other income	<u>1,654,676</u>	<u>1,537,791</u>
	<u>4,828,841</u>	<u>3,782,471</u>
Non-interest expenses		
Salaries	1,696,631	1,554,917
Pension and other staff benefits	192,561	151,289
Premises and equipment, including depreciation	593,853	513,511
Other	816,987	715,154
	<u>3,300,032</u>	<u>2,934,871</u>
Net income before income taxes	<u>1,528,809</u>	<u>847,600</u>
Income taxes (note 12)	<u>555,000</u>	<u>305,000</u>
Net income before minority interest	<u>973,809</u>	<u>542,600</u>
Minority interest in net income of subsidiaries	<u>8,880</u>	<u>13,527</u>
Net income	<u>\$ 964,929</u>	<u>\$ 529,073</u>
Earnings per share (note 13)		
Basic	\$3.00	\$1.64
Fully diluted	\$2.96	\$1.63

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of dollars)

	Year ended October 31, 1990	Year ended October 31, 1989
Capital stock		
Balance at beginning of year	\$3,459,593	\$2,915,258
Issue of preferred shares for cash	—	400,000
Issue of common shares for cash and on conversion of debentures and preferred shares	141,086	347,646
Preferred shares converted into common shares	—	(187,277)
Preferred shares redeemed, retracted and purchased for cancellation	(3,910)	(10,804)
Translation adjustment on shares issued in foreign currency	(680)	(5,230)
Balance at end of year	\$3,596,089	\$3,459,593
Retained earnings		
Balance at beginning of year	\$2,322,361	\$2,171,766
Net income	964,929	529,073
Dividends (note 11)	(433,058)	(377,562)
Gain (loss) on preferred shares retracted and purchased for cancellation	519	(99)
Expense of share issues, net of income taxes (note 12)	—	(6,577)
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes (note 12)	2,582	5,760
Balance at end of year	\$2,857,333	\$2,322,361

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of dollars)

	Year ended October 31, 1990	Year ended October 31, 1989
Cash derived from operating activities		
Net income	\$ 964,929	\$ 529,073
Adjustments to determine net cash derived from operating activities:		
Provision for loan losses	420,000	1,380,000
Provision for deferred income taxes (note 12)	140,255	(169,090)
Depreciation of buildings and equipment (note 5)	206,046	171,461
Net changes in accrued interest receivable and payable	293,812	401,934
Other items, net	16,895	72,591
	2,041,937	2,385,969
Cash derived from financing activities		
Net increase in deposits	9,981,722	1,947,995
Issue of bank debentures	200,000	250,000
Issue of preferred shares	—	400,000
Issue of common shares (note 11)	140,686	122,864
Dividends (note 11)	(433,058)	(377,562)
Other items, net	491,507	(268,563)
	10,380,857	2,074,734
Cash used in investing activities		
Net increase (decrease) in securities	1,473,880	(815,918)
Net increase in loans	9,875,272	6,837,446
Net acquisitions of land, buildings and equipment	497,557	345,594
	11,846,709	6,367,122
Net increase (decrease) in cash resources	576,085	(1,906,419)
Cash resources at beginning of year	8,187,123	10,093,542
Cash resources at end of year	\$ 8,763,208	\$ 8,187,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(all tabular amounts are in thousands of dollars)*

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Royal Bank of Canada are prepared in accordance with financial reporting requirements prescribed under the Bank Act and the related rules issued by the Superintendent of Financial Institutions.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The accounting policies summarized below are followed in the preparation of these financial statements and conform with generally accepted accounting principles.

Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The Bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of up to 15 years.

Investments in associated corporations (corporations owned between 20% and 50%) are accounted for under the equity method. The Bank's share of earnings of these associated corporations and gains and losses realized on dispositions of investments in associated corporations are included in income from securities.

Securities

Securities comprise investment account and trading account securities as well as loan substitute securities.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to income using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities and write-downs to reflect permanent impairment in value are included in income in the period in which they occur.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Gains and losses realized on disposal and unrealized valuation adjustments are included in income in the period in which they occur. Obligations related to securities sold short or under repurchase agreements are included in "Other liabilities".

Loan substitute securities are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities bear interest at floating rates and are accorded the accounting treatment applicable to Loans.

Loans

Loans are stated net of unearned interest and of an allowance for credit losses.

Non-performing loans consist of non-accrual loans and renegotiated reduced-rate loans. **Non-accrual loans** are those placed on a cash basis because there is reasonable doubt regarding the collectibility of principal or interest. Whenever payment of interest is 90 days past due, loans other than credit card balances are automatically placed on a non-accrual basis except in certain instances where management has determined that the collectibility of principal and interest is not reasonably in doubt. Upon classification of a loan to a non-accrual basis any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, interest received on non-accrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise interest received is credited to principal. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried

on an accrual basis as long as there is no reasonable doubt regarding the collectibility of principal and interest and interest is not 90 days past due. **Renegotiated reduced-rate loans** provide for a rate of interest lower than the prevailing market rates on similar loans to new borrowers.

Fees which relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest income" over the expected term of such loans. Where there is a reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other income" over the commitment or standby period.

Lease receivables, included in "Other loans", represent the aggregate remaining lease payments less unearned income. Unearned income, which at the inception of the lease represents the difference between total lease payments receivable and the cost of the leased asset, is amortized to income over the lease term so as to yield a constant rate of return on the declining balance of the lease receivable.

Allowance for Credit Losses

The allowance for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. Credit losses arise primarily from loans but also derive from deposits with other banks, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for losses which are charged to income, and reduced by write-offs net of recoveries and by losses realized on sales and exchanges of loans to troubled countries.

Specific provisions are established on an individual facility basis to recognize credit losses on most types of exposure. For consumer instalment loans, an aggregate provision is recorded by reference to historical ratios of write-offs to balances outstanding. For credit card balances, no provisions are

recorded; instead, balances are written off when no payment has been received for 180 days.

A **country risk provision** is made in respect of aggregate exposure in a number of designated troubled countries based on an overall assessment of the underlying economic conditions in those countries.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Losses realized on sales and exchanges of loans to troubled countries represent the excess of the face value of the loans given up over the cash and/or the fair value of the loans or equity securities received.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Statement of Assets and Liabilities. The Bank's recourse against the customer in the case of a call on

these commitments is reported as an offsetting asset of the same amount.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line method over the estimated useful lives as indicated below. Gains and losses on disposal are recorded in "Other income".

Buildings	20 to 50 years
Computer equipment	3 to 10 years
Furniture, fixtures and other equipment	7 to 10 years
Leasehold improvements	term of lease plus first option period

Income Taxes

The Bank follows the tax allocation basis of accounting under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included either in "Other assets" or "Other liabilities" as applicable. In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and accordingly cause the income tax provision to be different than it would be if based on statutory rates.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations,

other than those doing business in highly inflationary economies, are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income. Translation gains and losses on investments in foreign branches, subsidiaries and associated corporations doing business in highly inflationary economies are included in income.

Foreign Exchange Contracts

Foreign exchange contracts are valued at prevailing market rates, and the resulting unrealized gains and losses are included in "Other income" on a discounted present value basis.

Realized gains and losses on spot and forward contracts are also included in "Other income".

Interest Rate Futures and Future Rate Agreements

The Bank uses interest rate futures and future rate agreements in trading activities and to hedge interest rate exposure on assets, liabilities and anticipated transactions.

When used in trading activities, interest rate futures and future rate agreements are marked to market and the resultant gains and losses are recognized in income.

When used for hedging purposes, gains and losses on interest rate futures and future rate agreements are generally deferred and recognized in income over the expected remaining life of the hedged item.

Currency and Interest Rate Swaps

The Bank enters into currency and interest rate swaps as an intermediary between swapping counterparties in order to earn fee income, and as a principal in order to manage foreign currency and interest rate exposure.

When acting as an intermediary, the Bank records fees for arrangement services in income as received.

When acting as a principal, the Bank accrues income or expense associated with currency and interest rate swaps over the life of the agreements.

Foreign Currency and Interest Rate Options

The Bank enters into foreign currency and interest rate options as a writer in order to earn fee income, and as a purchaser in order to manage foreign currency and interest rate exposure.

Both written and purchased options are marked to market and the resultant gains and losses are recognized in income. For written options, the maximum gain accrued is equal to the premiums received at inception; for purchased options, the maximum loss accrued is equal to the premiums paid at inception.

Pension Plan

The Bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contribution, and average earnings at retirement. Employees of subsidiaries of the Bank are generally covered by separate pension plans which offer comparable benefits.

An actuarial valuation is performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of (i) the unamortized past service pension contribution existing as at October 31, 1985, the date the current accounting policy commenced, (ii) the funding excess or deficiency existing as at the date of the latest actuarial valuation and (iii) any experience gains or losses.

The cumulative excess of pension fund contributions over the amounts recorded as expense is included in "Other assets".

2. SECURITIES	Maturity					1990		1989	
	Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Carrying amount	Estimated market value	Carrying amount	Estimated market value
Investment account securities									
Issued or guaranteed by									
Canada and provinces	\$2,015,520	\$ 31,398	\$ —	\$ 24,396	\$ 107,735	\$2,179,049	\$2,206,378	\$2,599,329	\$2,599,716
Other debt	863,193	357,204	309,814	207,386	18,734	1,756,331	1,750,724	713,770	709,612
Other equity*					530,239	530,239	447,304	524,248	503,078
	2,878,713	388,602	309,814	231,782	656,708	4,465,619	4,404,406	3,837,347	3,812,406
Trading account securities	1,924,355	272,304	241,844	223,343	1,083,196	3,745,042	3,745,042	3,082,853	3,082,853
Loan substitute securities									
Income debentures	6,630	21,448	5,834	400	—	34,312	34,312	40,735	40,735
Small business bonds	50,741	14,839	—	—	—	65,580	65,580	88,692	88,692
Term preferred shares	104,228	7,241	779,980	31,000	212,888	1,135,337	1,135,337	793,996	793,996
	161,599	43,528	785,814	31,400	212,888	1,235,229	1,235,229	923,423	923,423
Securities of associated corporations*					3,168	3,168	3,168	145,868	145,868
	\$4,964,667	\$704,434	\$1,337,472	\$486,525	\$1,955,960	\$9,449,058	\$9,387,845	\$7,989,491	\$7,964,550

*Securities of associated corporations and other equity securities have no stated term and have been classified under the "Over 10 years" column.

3. LOANS	1990	1989
Domestic*		
Residential mortgages	\$24,988,727	\$21,686,465
Consumer instalment, credit card and other personal loans	16,645,282	15,416,591
Loans to businesses and governments	35,087,005	31,287,032
	76,721,014	68,390,088
Allowance for credit losses	(322,158)	(292,230)
	76,398,856	68,097,858
International*		
Residential mortgages	745,844	843,924
Consumer instalment loans	227,797	225,615
Loans to businesses and governments	17,461,904	16,821,345
	18,435,545	17,890,884
Allowance for credit losses	(2,140,344)	(2,749,957)
	16,295,201	15,140,927
	\$92,694,057	\$83,238,785
Non-performing loans, net of allowance for credit losses (included above)		
Non-accrual loans		
Domestic	\$1,046,015	\$431,493
International, excluding LDC loans	315,216	191,085
LDC loans	379,205	—
	1,740,436	622,578
Renegotiated reduced-rate loans		
Domestic	94,185	125,452
International	1,322	1,330
	95,507	126,782
	\$1,835,943	\$749,360

*Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The loans of these units, together with loans booked outside Canada, comprise International loans.

4. ALLOWANCE FOR CREDIT LOSSES			1990	1989
	Domestic	International	Total	Total
Balance at beginning of year.....	\$292,230	\$2,749,957	\$3,042,187	\$2,637,096
Provision for loan losses.....	437,000	(17,000)	420,000	1,380,000
Write-offs, net of recoveries ²⁰¹⁸	(407,072)	(4,977)	(412,049)	(408,975)
Losses realized on sales and exchanges of loans to troubled countries.....	—	(587,665)	(587,665)	(462,552)
Other, principally translation adjustments on provisions denominated in foreign currencies.....	—	29	29	(103,382)
Balance at end of year	\$322,158	\$2,140,344	\$2,462,502	\$3,042,187
Composed of:				
Specific provisions.....	\$322,158	\$ 128,484	\$ 450,642	\$ 440,407
Country risk provision.....	—	2,011,860	2,011,860	2,601,780
Total	\$322,158	\$2,140,344	\$2,462,502	\$3,042,187

5. LAND, BUILDINGS AND EQUIPMENT			1990	1989
	Cost	Accumulated depreciation	Net book value	Net book value
Land.....	\$ 176,189	\$ —	\$ 176,189	\$ 147,132
Buildings.....	906,433	218,673	687,760	642,512
Computer equipment.....	917,519	469,998	447,521	338,638
Furniture, fixtures and other equipment.....	561,865	314,780	247,085	201,234
Leasehold improvements.....	415,881	174,234	241,647	179,175
	\$2,977,887	\$1,177,685	\$1,800,202	\$1,508,691

Depreciation expense included in the Statement of Income for the year ended October 31, 1990 was \$206,046,000 (1989 – \$171,461,000).

6. OTHER ASSETS			1990	1989
Accrued interest.....			\$ 965,651	\$ 870,369
Amounts receivable from brokers, dealers and clients.....			621,058	788,519
Goodwill.....			222,462	242,601
Deferred income taxes.....			207,382	347,637
Cumulative excess of pension fund contributions over the amounts recorded as expense.....			61,810	71,364
Other items, including accounts receivable and prepaid expenses.....			784,338	714,416
			\$2,862,701	\$3,034,906

7. DEPOSITS				1990	1989
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
Domestic*					
Individuals.....	\$1,678,160	\$29,721,255	\$24,551,612	\$55,951,027	\$49,930,828
Businesses and governments	4,957,912	6,385,646	4,921,123	16,264,681	15,542,045
Banks	598,097	14,255	374,410	986,762	898,559
	7,234,169	36,121,156	29,847,145	73,202,470	66,371,432
International*					
Individuals.....	252,376	590,925	3,782,513	4,625,814	3,920,634
Businesses and governments	627,853	66,610	10,375,666	11,070,129	9,699,948
Banks	209,661	16,139	10,043,784	10,269,584	9,194,261
	1,089,890	673,674	24,201,963	25,965,527	22,814,843
	\$8,324,059	\$36,794,830	\$54,049,108	\$99,167,997	\$89,186,275

*Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The deposits of these units, together with deposits booked outside Canada, comprise International deposits.

8. LIABILITIES OF SUBSIDIARIES OTHER THAN DEPOSITS

These liabilities are subordinated in right of payment to claims of the depositors and certain other creditors of the respective subsidiaries.

	1990	1989
RBC Dominion Securities Limited		
Secured call loans	\$643,269	\$ 846,252
Unsecured call loans	7,804	64,879
Royal Bank Leasing Inc.		
Long-term notes payable in various amounts to 1997 and bearing interest at rates from 9.65% to 11.2%	123,735	164,952
Other subsidiaries	42,152	37,112
	\$816,960	\$1,113,195

9. OTHER LIABILITIES

	1990	1989
Accrued interest	\$2,308,216	\$1,919,122
Amounts payable to brokers, dealers and clients	1,459,998	798,352
Obligations related to securities sold short or under repurchase agreements	1,280,114	1,288,425
Obligations under capital leases	112,846	79,907
Dividends payable	97,634	92,966
Other items, including accounts payable and accrued expenses	1,130,358	1,200,911
	\$6,389,166	\$5,379,683

10. BANK DEBENTURES

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank.

In accordance with the formula prescribed in the Bank Act, as at November 1, 1990 the Bank had the capacity to issue an additional \$1,104,000,000 of debentures.

<i>Maturity</i>	<i>Rate</i>		<i>1990</i>	<i>1989</i>
November 15, 1990		(1)	\$ 75,000	\$ 75,000
April 15, 1991	7%	(2)	2,401	2,401
July 22, 1991	12%	(3)	99,550	99,950
February 15, 1992	9%	(2)	25,123	27,440
May 15, 1994	10%	(2)	29,104	29,628
December 1, 1994	10%	(2)	5,533	5,888
June 1, 1998	10.80%		200,000	200,000
September 30, 1998		(4)	116,670	117,350
January 15, 1999	10.90%		250,000	250,000
October 14, 1999	10.20%		250,000	250,000
May 22, 2000	11 $\frac{5}{8}$ %	(2),(5)	37,189	47,967
January 31, 2001	11.75%		200,000	—
July 5, 2005		(6)	408,345	410,725
October 1, 2083		(7)	250,000	250,000
June 6, 2085		(8)	350,010	352,050
			\$2,298,925	\$2,118,399

(1) The November 15, 1990 debentures bear interest at a rate of $\frac{5}{8}$ of 1% below the Bank's Canadian prime rate.

(2) Subject to sinking fund provisions.

(3) The July 22, 1991 debentures are convertible at the option of the holder up to and including July 21, 1991 into Common Shares at a conversion price of \$17.50 per Common Share. These debentures are also convertible at the option of the Bank at a conversion price of \$17.50 per Common Share if the Common Shares have traded at or in excess of certain weighted average prices.

(4) The September 30, 1998 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$100,000,000. These debentures bear interest at a rate of 0.08% above the six-month LIBOR.

(5) The May 22, 2000 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$31,875,000.

(6) The July 5, 2005 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$350,000,000. These debentures bear interest at a rate of $\frac{1}{16}$ of 1% above the three-month LIBOR.

(7) The October 1, 2083 debentures bear interest at a rate of 0.40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.

(8) The June 6, 2085 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$300,000,000. These debentures bear interest at a rate equal to $\frac{1}{4}$ of 1% above the three-month LIMEAN. In the event of a reduction of the annual dividend declared by the Bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

Repayment schedule

The aggregate sinking fund requirements and maturities of the Bank's debentures assuming the earliest possible dates of maturity under the terms of issue are as follows:

Within 1 year	\$ 184,037
From 1 to 2 years	32,470
From 2 to 3 years	7,470
From 3 to 5 years	41,174
From 5 to 10 years	825,419
Over 10 years	1,208,355
	\$2,298,925

Subsequent issues

In November 1990, the Bank issued \$200,000,000 of 11% debentures due July 1, 2000.

11. CAPITAL STOCK

Authorized capital stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed \$5,000,000,000 in each case.

Common – An unlimited number of shares without nominal or par value provided that the aggregate consideration shall not exceed \$10,000,000,000.

Outstanding capital stock	1990		1989	
	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
Preferred				
\$1.88 Cumulative Redeemable				
First Preferred Shares Series A (1)				
Outstanding at beginning of year	4,441	\$ 111,016	4,627	\$ 115,676
Purchased for cancellation	(157)	(3,910)	(186)	(4,660)
Outstanding at end of year	4,284	107,106	4,441	111,016
\$1.45 Cumulative Redeemable				
First Preferred Shares Series B (2)				
Outstanding at end of year	13,600	271,991	13,600	271,991
Floating Rate Cumulative Redeemable				
First Preferred Shares Series C (3)				
Outstanding at end of year	1,000	100,000	1,000	100,000
U.S.\$ Floating Rate Cumulative Redeemable				
First Preferred Shares Series D (3)				
Outstanding at beginning of year	1,000	117,350	1,000	122,580
Foreign currency translation adjustment		(680)		(5,230)
Outstanding at end of year	1,000	116,670	1,000	117,350
Price Adjusted Floating Rate Cumulative Redeemable				
First Preferred Shares Series E (4)				
Outstanding at end of year	1,500	150,000	1,500	150,000
Non-cumulative				
First Preferred Shares Series F (5)				
Outstanding at end of year	6,000	150,000	6,000	150,000
Non-cumulative				
First Preferred Shares Series G (6)				
Outstanding at end of year	10,000	250,000	10,000	250,000
\$2.75 Cumulative Redeemable Convertible				
Second Preferred Shares Series A				
Outstanding at beginning of year			7,736	193,421
Converted into Common Shares			(7,491)	(187,277)
Redeemed			(118)	(2,946)
Retracted			(127)	(3,198)
Outstanding at end of year	—	—	—	—
Total outstanding preferred stock		1,145,767		1,150,357
Common (7)				
Outstanding at beginning of year	286,674	2,309,236	265,300	1,961,590
Issued under the Shareholder Dividend and Share Purchase Plan	6,570	140,686	6,390	122,864
Issued on conversion of Second Preferred Shares Series A	—	—	14,982	224,732
Issued on conversion of July 22, 1991 Debentures	23	400	2	50
Total outstanding common stock	293,267	2,450,322	286,674	2,309,236
Total outstanding capital stock		\$3,596,089		\$3,459,593

- (1) The Bank has undertaken to purchase in each calendar quarter 48,000 of the First Preferred Shares Series A, if available, at prices not exceeding \$25 per share.
- (2) The Bank has the option to redeem the First Preferred Shares Series B at \$20.60 per share until June 9, 1991 reducing by \$0.20 per year until June 9, 1993 and thereafter at \$20. The Bank may at any time purchase for cancellation First Preferred Shares Series B at a price per share not exceeding the then applicable above-mentioned redemption price. Such redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.
- (3) The dividends on the First Preferred Shares Series C and D are determined quarterly by applying to Cdn.\$100 and U.S.\$100 respectively, the greater of (i) 6.67% per annum and (ii) $\frac{2}{3}$ of the Bank's average Canadian and U.S. prime rates respectively for stated periods. The First Preferred Shares Series C and D are redeemable by the Bank at a price per share of Cdn.\$100 and U.S.\$100 respectively. The Bank may at any time purchase for cancellation First Preferred Shares Series C and D at a price per share not exceeding Cdn.\$100 and U.S.\$100 respectively. Such redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.
- (4) The dividend on the First Preferred Shares Series E is determined monthly and (i) floats in relation to changes in the Bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than 55% or greater than 75% of the average prime rate. The First Preferred Shares Series E are not redeemable by the Bank prior to April 30, 1991 but thereafter are redeemable at a price per share of \$100. The Bank may at any time purchase for cancellation First Preferred Shares Series E at a price per share not exceeding \$100. Such redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.
- (5) The dividend on the First Preferred Shares Series F is determined quarterly at a rate equal to the greater of (i) \$0.5625 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. The First Preferred Shares Series F are not redeemable by the Bank prior to October 31, 1999 but thereafter are redeemable (i) in cash, at a price per share of \$25 or (ii) by the conversion of each First Preferred Share Series F to be redeemed into that number of Common Shares determined by dividing \$25 by 95% of the prevailing market price of the Common Shares at that time. Such redemption options are subject to the consent of the Superintendent of Financial Institutions.
- (6) The dividend on the First Preferred Shares Series G is payable quarterly at a rate of \$0.53125 per share until October 31, 1999 and thereafter is determined quarterly at a rate equal to the greater of (i) \$0.53125 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. The First Preferred Shares Series G are not redeemable by the Bank prior to October 31, 1999 but thereafter are redeemable (i) in cash, at a price per share of \$25 or (ii) by the conversion of each First Preferred Share Series G to be redeemed into that number of Common Shares determined by dividing \$25 by 95% of the prevailing market price of the Common Shares at that time. On and after October 31, 2000, subject to the right of the Bank to redeem or to find substitute purchasers, each First Preferred Share Series G will be convertible at the option of the holder into that number of Common Shares determined by dividing \$25 by 95% of the prevailing market price of the Common Shares at that time. Such redemption options are subject to the consent of the Superintendent of Financial Institutions.
- (7) The Common Shares were split on a 2 for 1 basis in February 1990 and accordingly all share and per share amounts have been restated.

Dividends declared	1990	1989
Preferred		
First Preferred		
Series A	\$ 8,149	\$ 8,508
Series B	19,720	19,720
Series C	9,408	8,573
Series D	7,920	8,498
Series E	15,897	14,630
Series F	13,500	1,812
Series G	21,250	2,853
Second Preferred		
Series A	—	30
	95,844	64,624
Common	337,214	312,938
	<u>\$433,058</u>	<u>\$377,562</u>

12. INCOME TAXES	1990	1989
Income taxes are reported in the financial statements as follows:		
Statement of Income	\$555,000	\$305,000
Statement of Retained Earnings		
Expense of share issues	—	(4,700)
Unrealized foreign currency translation gains and losses, net of hedging activities	(23,000)	46,700
Total Income Tax Provision	\$532,000	\$347,000
The current and deferred income taxes are as follows:		
Current income taxes	\$391,745	\$516,090
Deferred income taxes	140,255	(169,090)
Total Income Tax Provision	\$532,000	\$347,000
Income taxes in the Statement of Income are at an effective rate less than the composite federal and provincial statutory income tax rate for the following reasons:		
Composite federal and provincial statutory income tax rate	41.8%	41.8%
Changes in rate resulting from:		
Tax-exempt income from securities, primarily loan substitute securities	(1.9)	(3.8)
Lower average tax rate applicable to subsidiaries	(2.9)	(8.1)
Other, net	(0.7)	6.1
Effective income tax rate	36.3%	36.0%

13. EARNINGS PER SHARE

Basic earnings per share has been calculated after deducting preferred dividends of \$95,844,000 (1989 – \$64,624,000) and has been based on the average number of Common Shares outstanding for the year of 290,242,550 (1989 – 282,585,598).

Fully diluted earnings per share has been calculated on the average number of Common Shares which would have been outstanding during the year of 295,945,183 (1989 – 290,112,922) assuming conversion of all convertible securities and exercise

of all warrants outstanding as at the beginning of each year or date of issue if later. For purposes of this calculation, adjustments of \$6,970,000 (1989 – \$7,706,000) have been made for the after-tax interest on convertible debentures, the dividends on convertible preferred shares and an imputed after-tax return at an appropriate rate on additional funds receivable on the conversion of the Second Preferred Shares Series A.

14. FINANCIAL INSTRUMENTS

In the normal course of business of meeting the financing needs of its customers and managing its own exposure to fluctuations in interest rates and foreign exchange rates, the Bank is a party to various financial instruments which are not reflected in the financial statements.

The financial instruments reported below reflect various degrees and types of risks, including credit, interest rate, foreign exchange rate and liquidity risk. The amounts reported represent financial commitments to perform, but do not necessarily reflect the economic risks associated with the commitments.

Many commitments to extend credit do not ultimately involve any outlay of funds to customers and therefore have neither liquidity nor credit risk. Foreign exchange and interest rate contracts, since they generally consist of offsetting commitments, involve limited foreign exchange and interest rate risk to the Bank.

Credit risk is the exposure to loss in the event of non-performance by the other party to a transaction, and is a function of the ability of the counterparty to honour its obligations to the Bank. For all types of foreign exchange and interest rate contracts, only exposures created by movements unfavourable to a customer's foreign exchange or interest rate position create a potential for credit risk. Hence, generally, only half of the contract amounts outstanding will be a source of any credit risk at a particular point in time, and then only for an amount equal to changes in foreign exchange or interest rates. The Bank controls all credit risks through credit approvals, limits and monitoring procedures.

Certain foreign exchange and interest rate contracts are entered into by the Bank to reduce the exposure of certain assets and liabilities on the balance sheet to foreign exchange or interest rate risk.

	1990	1989
Credit instruments		
Guarantees and standby letters of credit	\$ 6,636,451	\$ 6,278,430
Documentary and commercial letters of credit	1,186,689	1,004,740
Commitments to extend credit (1)	65,674,542	69,755,330
Note issuance facilities/Revolving underwriting facilities	798,865	736,358
Foreign exchange and interest rate contracts		
Foreign exchange contracts (2)	211,209,541	179,840,769
Foreign currency and interest rate futures	10,033,393	7,511,497
Future rate agreements	48,122,480	32,921,579
Currency and interest rate swaps	106,040,991	79,122,470
Foreign currency and interest rate options	19,609,489	11,432,901

(1) Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

(2) Foreign exchange contracts represent commitments to purchase foreign currency and Canadian dollars, including undelivered spot transactions.

(3) The above amounts, except for those relating to guarantees and letters of credit, are as at September 30.

15. COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitments

The Bank leases many properties under standard real estate leases which include renewal options and escalation clauses. Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are shown below. Annual rental commitments after 1995 are in decreasing amounts.

1991	\$105,044
1992	97,317
1993	89,637
1994	81,504
1995	73,620

Building rent expense, net of rental income from subleases, included in the Statement of Income for the year ended October 31, 1990 was \$102,158,000 (1989-\$85,898,000).

Litigation

Various legal proceedings are pending which challenge certain practices or actions of the Bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the Bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

16. DOMESTIC AND INTERNATIONAL OPERATIONS

The Bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of the international money market units. These units' activities, together with the Bank's business carried on outside Canada, comprise International Operations.

While it is not practicable to make a definitive division of its Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds and (b) corporate non-interest expenses.

	Domestic		International		Total	
	1990	1989	1990	1989	1990	1989
Net interest income – taxable equivalent basis ..	\$3,148,477	\$3,080,142	\$537,620	\$ 636,317	\$3,686,097	\$3,716,459
Deduct: Taxable equivalent adjustment*	89,402	73,171	2,530	18,608	91,932	91,779
Net interest income – financial statement basis ..	3,059,075	3,006,971	535,090	617,709	3,594,165	3,624,680
Provision for loan losses	437,000	285,000	(17,000)	1,095,000	420,000	1,380,000
	2,622,075	2,721,971	552,090	(477,291)	3,174,165	2,244,680
Other income	1,347,915	1,216,356	306,761	321,435	1,654,676	1,537,791
	3,969,990	3,938,327	858,851	(155,856)	4,828,841	3,782,471
Non-interest expenses	2,830,729	2,472,293	469,303	462,578	3,300,032	2,934,871
	1,139,261	1,466,034	389,548	(618,434)	1,528,809	847,600
Income taxes	431,000	591,000	124,000	(286,000)	555,000	305,000
	708,261	875,034	265,548	(332,434)	973,809	542,600
Minority interest in net income of subsidiaries ..	7,160	10,505	1,720	3,022	8,880	13,527
Net income (loss)	\$ 701,101	\$ 864,529	\$263,828	\$ (335,456)	\$ 964,929	\$ 529,073
Average total assets	\$96,200,000	\$88,000,000	\$25,500,000	\$24,700,000	\$121,700,000	\$112,700,000

* The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at a rate of 41.8% in 1990 and 1989, would result in the same after-tax net income as appears in the financial statements. The gross up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

17. PENSION PLAN

1990 1989

The funding excess of the Bank's principal pension plans as at January 1, 1990 and 1989 is determined as follows:

Pension fund assets, at adjusted market values	\$1,664,485	\$1,544,393
Actuarially computed present value of accrued pension benefits	1,430,699	1,305,599
Funding excess	\$ 233,786	\$ 238,794

Pension expense included in the Statement of Income for the year ended October 31, 1990 was \$25,174,000 (1989 – \$11,371,000).

CORPORATIONS IN WHICH THE BANK OWNS MORE THAN 10% OF THE VOTING SHARES

<i>Name</i>	<i>Principal office address</i>	<i>Carrying value of voting shares owned by the Bank*</i>	<i>Percent of voting shares owned by the Bank</i>
RBC Dominion Securities Limited	Toronto, Canada	\$ 419,610	69%
RBC Dominion Securities Inc.	Toronto, Canada		69
RBC Dominion Securities (Alberta) Inc.	Calgary, Canada		69
RBC Dominion Securities Corporation	New York, U.S.A.		69
RBC Dominion Securities Barbados Limited	Bridgetown, Barbados		69
RBC Dominion Securities (London) Limited	London, England		69
RBC Dominion Securities International Limited	London, England		69
RBC Dominion Securities Finance S.A.	Lausanne, Switzerland		69
RBC Dominion Securities Pacific Inc.	Toronto, Canada		69
RBC Dominion Securities (Asia) Limited	Hong Kong		69
DS Marcil Partnership	Toronto, Canada		48
RBC Dominion Securities Pemberton Financial Services Inc.	Toronto, Canada		69
Royal Bank Mortgage Corporation	Montreal, Canada	1,280,355	100
Royal Bank Leasing Inc.	Toronto, Canada	430,151	100
Royal Bank Realty Inc.	Montreal, Canada	13,987	100
Globe Realty Management Limited	Toronto, Canada		100
Royal Bank Export Finance Co. Ltd.	Toronto, Canada	5,096	100
Royal Bank Capital Corporation	Toronto, Canada	12,091	100
UB&S Holdings Limited	Toronto, Canada	8,033	100
Royal Bank Investment Management Inc.	Toronto, Canada		86
Royfund Distributors Ltd.	Toronto, Canada		86
Fraser Dingman Limited	Toronto, Canada		86
Royal Bank Mutual Fund Services Inc.	Montreal, Canada	50	100
Royal Bank Investor Trading Inc.	Montreal, Canada	999	100
Chargex Ltd.	Montreal, Canada		25
RBC Holdings (USA) Inc.	New York, U.S.A.	194,578	100
RBC Properties (New York) Inc.	New York, U.S.A.		100
RBC Holdings (Delaware) Inc.	Wilmington, U.S.A.		100
Royal Bank de Puerto Rico	San Juan, Puerto Rico	48,188	100
The Royal Bank of Canada (Brasil) S.A.	São Paulo, Brazil	19,145	100
The Royal Bank of Canada Representacoes S/C Ltda.	São Paulo, Brazil		100
R.B.C. Holdings (Bahamas) Limited	Nassau, Bahamas	852,026	100
The Royal Bank of Canada (Bahamas) Limited	Nassau, Bahamas		100
R.B.C. Investments Limited	Nassau, Bahamas		100
Finance Corporation of Bahamas Limited	Nassau, Bahamas		75
Royal Bank of Canada (Barbados) Limited	Bridgetown, Barbados		100
Royal Bank of Canada Insurance Company Ltd.	Bridgetown, Barbados		100
Royal Bank (Barbados) Financial Corporation	Bridgetown, Barbados	1,450	100
Atlantis Holdings Limited	Bridgetown, Barbados	191,684	100

*The carrying value (in thousands of dollars) of voting shares owned 20% or more by the Bank is stated at the Bank's equity in such investments.

<i>Name</i>	<i>Principal office address</i>	<i>Carrying value of voting shares owned by the Bank*</i>	<i>Percent of voting shares owned by the Bank</i>
RBC Finance B.V.	Amsterdam, Netherlands	\$ 517,748	100%
Royal Bank of Canada S.A.	Paris, France		100
Royal Bank of Canada (Suisse)	Geneva, Switzerland		100
Royal Bank of Canada A.G.	Frankfurt, Germany		100
RBC Holdings (Guernsey) Limited	Guernsey, Channel Islands		100
Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands		100
Royal Bank of Canada Investment Management (Guernsey) Limited	Guernsey, Channel Islands		100
RBC Offshore Fund Managers Limited	Guernsey, Channel Islands		100
Royal Bank of Canada Trust Company (Asia) Limited	Hong Kong		100
RBC Holdings (Isle of Man) Limited	Ballasalla, Isle of Man		100
Royal Bank of Canada (Isle of Man) Limited	Ballasalla, Isle of Man		100
Royal Bank of Canada Investment Management (Isle of Man) Limited	Ballasalla, Isle of Man		100
Royal Bank of Canada Trustees (Isle of Man) Limited	Ballasalla, Isle of Man		100
RBC Mannin Limited	London, England		100
Royal Bank of Canada (Cayman) Limited	George Town, Grand Cayman		100
RoyCan Trust Company, S.A.	Geneva, Switzerland		100
The Royal Bank of Canada Holdings (U.K.) Limited	London, England		100
Chancellor Investments Limited	London, England		100
Royal Bank of Canada Europe Limited	London, England		100
Orion Leasing Holdings Limited	London, England		100
Orion Finance Limited	London, England		100
The Royal Bank of Canada Trade Finance Limited	London, England		100
The Royal Bank of Canada Forfait Finance Limited	London, England		100
RBC Properties (London) Limited	London, England		100
RBC Properties (Stamford Street) Limited	London, England		100
Profitmore Limited	London, England		100
AST Trans-Act Limited	London, England		75
Multinational Orion Leasing Holdings B.V.	Amsterdam, Netherlands	686	100
Royal Bank of Canada (Asia) Limited	Singapore	161,041	100
RBC Australia Holdings Limited	Sydney, Australia	168,432	100

*The carrying value (in thousands of dollars) of voting shares owned 20% or more by the Bank is stated at the Bank's equity in such investments.

CONDENSED FINANCIAL STATEMENTS OF MORTGAGE, LEASING AND VENTURE CAPITAL SUBSIDIARIES

Statement of Assets and Liabilities (in thousands of dollars)			Statement of Income (in thousands of dollars)	
	October 31, 1990	October 31, 1989	Year ended October 31, 1990	Year ended October 31, 1989
Royal Bank Mortgage Corporation				
Assets			Income	
Residential mortgages	\$23,841,101	\$20,267,982	Interest on residential mortgages ...	\$2,642,281 \$2,117,665
Personal loans	639,546	935,581	Interest on personal loans	118,385 140,808
Commercial loans	975,411	939,731	Interest on commercial loans	126,803 113,762
Other investments	3,609,453	3,500,148	Interest on other investments	549,025 317,619
Royal Bank of Canada	373,227	470,673		3,436,494 2,689,854
	\$29,438,738	\$26,114,115	Expenses	
Liabilities			Interest – Royal Bank of Canada ...	14,138 16,543
Accrued interest and other liabilities .	\$ 670,320	\$ 543,326	Interest on notice deposits	1,576,650 1,072,099
Notice deposits	15,364,930	13,139,928	Interest on short-term	
Short-term promissory notes	1,149,308	967,560	promissory notes	111,669 120,670
Investment certificates			Interest on investment certificates ...	1,140,232 995,541
Due within one year	7,523,379	6,509,700	Operating expenses	314,560 263,045
Due beyond one year	3,409,653	3,829,288		3,157,249 2,467,898
Deferred income taxes	32,793	49,908	Net income before income taxes ...	279,245 221,956
Preferred and common stock	87,139	86,665	Income taxes	71,738 56,081
Contributed surplus	591,433	584,705	Net income	\$ 207,507 \$ 165,875
Retained earnings	609,783	403,035		
	\$29,438,738	\$26,114,115		
Royal Bank Leasing Inc.				
Assets			Income	
Receivable under lease agreements			Leases	\$109,303 \$103,424
Royal Bank of Canada	\$ 60,969	\$ 80,888	Expenses	
Other	915,096	835,018	Interest on short-term	
Other assets	3,301	3,392	promissory notes	13,855 16,565
	\$979,366	\$919,298	Interest on long-term debt	
Liabilities			Royal Bank of Canada	5,998 18,676
Accrued interest and other liabilities .	\$ 37,761	\$ 27,482	Other	14,833 18,817
Short-term promissory notes	153,800	113,700	Operating expenses	8,303 7,747
Long-term debt				42,989 61,805
Royal Bank of Canada	96,786	96,987	Net income before income taxes ...	66,314 41,619
Other	124,519	168,103	Income taxes	29,529 17,935
Deferred income taxes	136,349	119,660	Net income	\$ 36,785 \$ 23,684
Common stock	321,975	321,975		
Retained earnings	108,176	71,391		
	\$979,366	\$919,298		
Royal Bank Capital Corporation				
Assets			Income	
Cash	\$ 385	\$ 3	Interest and dividends	\$ 2,495 \$ 1,168
Investments	36,213	26,630	Fees and commissions	1,806 1,354
Other assets	597	420	Loss on investments	(1,920) (1,200)
	\$37,195	\$27,053		2,381 1,322
Liabilities			Expenses	
Accrued interest and other liabilities .	\$ 102	\$ 97	Interest – Royal Bank of Canada ...	2,415 1,506
Royal Bank of Canada	25,002	17,851	Operating expenses	1,435 1,257
Common stock	15,000	10,000		3,850 2,763
Deficit	(2,909)	(895)	Net loss before income taxes	(1,469) (1,441)
	\$37,195	\$27,053	Income taxes	545 (230)
			Net loss	\$(2,014) \$(1,211)

QUARTERLY FINANCIAL HIGHLIGHTS

DOMESTIC

(As a percent of average assets, taxable equivalent basis)

	1990				1989			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	3.16%	3.22%	3.31%	3.41%	3.62%	3.49%	3.45%	3.43%
Provision for loan losses	(.63)	(.44)	(.40)	(.33)	(.30)	(.31)	(.31)	(.38)
Other income	2.53	2.78	2.91	3.08	3.32	3.18	3.14	3.05
	1.38	1.35	1.39	1.49	1.45	1.41	1.37	1.29
Non-interest expenses	3.91	4.13	4.30	4.57	4.77	4.59	4.51	4.34
	(3.03)	(2.93)	(2.94)	(2.87)	(2.85)	(2.89)	(2.85)	(2.64)
Income taxes and minority interest . . .	.88	1.20	1.36	1.70	1.92	1.70	1.66	1.70
	(.40)	(.51)	(.57)	(.73)	(.90)	(.73)	(.71)	(.71)
Return on assets	.48%	.69%	.79%	.97%	1.02%	.97%	.95%	.99%
Net income (\$ millions)	\$ 121	\$ 171	\$ 182	\$ 227	\$ 235	\$ 220	\$ 200	\$ 210
Average assets (\$ billions)	\$99.5	\$97.6	\$94.7	\$93.0	\$92.0	\$89.7	\$85.9	\$84.3

INTERNATIONAL

(As a percent of average assets, taxable equivalent basis)

	1990				1989			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	2.26%	1.83%	2.77%	1.61%	2.14%	2.40%	2.16%	3.55%
Provision for loan losses	.27	.14	(.13)	(.04)	(14.30)	(1.26)	(1.28)	(1.16)
Other income	2.53	1.97	2.64	1.57	(12.16)	1.14	.88	2.39
	1.22	1.09	1.14	1.36	1.40	1.18	1.23	1.38
Non-interest expenses	3.75	3.06	3.78	2.93	(10.76)	2.32	2.11	3.77
	(1.81)	(1.84)	(1.89)	(1.82)	(2.06)	(1.75)	(1.75)	(1.92)
Income taxes and minority interest . . .	1.94	1.22	1.89	1.11	(12.82)	.57	.36	1.85
	(.67)	(.32)	(.67)	(.36)	5.72	(.24)	(.12)	(.92)
Return on assets	1.27%	.90%	1.22%	.75%	(7.10)%	.33%	.24%	.93%
Net income (loss) (\$ millions)	\$ 85	\$ 59	\$ 73	\$ 47	\$(430)	\$ 19	\$ 15	\$ 60
Average assets (\$ billions)	\$26.4	\$26.3	\$24.4	\$25.0	\$24.0	\$23.6	\$25.7	\$25.6

TOTAL BANK

(As a percent of average assets, taxable equivalent basis)

	1990				1989			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	2.97%	2.92%	3.20%	3.03%	3.32%	3.26%	3.15%	3.46%
Provision for loan losses	(.44)	(.32)	(.34)	(.27)	(3.20)	(.51)	(.53)	(.56)
Other income	2.53	2.60	2.86	2.76	.12	2.75	2.62	2.90
	1.35	1.30	1.34	1.46	1.44	1.37	1.33	1.32
Non-interest expenses	3.88	3.90	4.20	4.22	1.56	4.12	3.95	4.22
	(2.77)	(2.69)	(2.72)	(2.65)	(2.69)	(2.65)	(2.59)	(2.48)
Income taxes and minority interest . . .	1.11	1.21	1.48	1.57	(1.13)	1.47	1.36	1.74
	(.46)	(.47)	(.60)	(.65)	.46	(.63)	(.57)	(.77)
Return on assets	.65%	.74%	.88%	.92%	(.67)%	.84%	.79%	.97%
Net income (loss) (\$ millions)	\$ 206	\$ 230	\$ 255	\$ 274	\$(195)	\$ 239	\$ 215	\$ 270
Average assets (\$ billions)	\$125.9	\$123.9	\$119.1	\$118.0	\$116.0	\$113.3	\$111.6	\$109.9
Earnings per share – basic	\$0.62	\$0.71	\$0.80	\$0.87	\$(0.77)	\$0.78	\$0.71	\$0.92
Earnings per share – fully diluted	\$0.61	\$0.70	\$0.79	\$0.86	\$(0.77)	\$0.77	\$0.70	\$0.89
Dividends per share	\$0.29	\$0.29	\$0.29	\$0.29	\$ 0.275	\$0.275	\$0.275	\$0.275

5-YEAR ANALYSIS OF NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

For the year ended October 31
(\$ millions)

	1990			1989		
	Average balances	Interest	Average rate	Average balances	Interest	Average rate
Assets						
Earning assets						
Deposits with other banks	\$ 6,888	\$ 666	9.67%	\$ 6,937	\$ 676	9.74%
Securities						
Loan substitutes	1,005	154	15.32	741	108	14.57
Other securities	8,981	944	10.51	8,901	887	9.97
Net gains on disposal of securities	—	14	—	—	67	—
	9,986	1,112	11.14	9,642	1,062	11.01
Loans						
Domestic						
Residential mortgages	23,740	2,728	11.49	20,003	2,191	10.95
Consumer instalment, credit card and other personal loans	16,389	2,476	15.11	14,794	2,099	14.19
Loans to businesses and governments	32,702	4,196	12.83	29,555	3,764	12.74
	72,831	9,400	12.91	64,352	8,054	12.52
International						
Residential mortgages	787	109	13.85	968	127	13.12
Consumer instalment loans	232	33	14.22	282	42	14.89
Loans to businesses and governments	14,125	1,746	12.36	13,943	1,824	13.08
	15,144	1,888	12.47	15,193	1,993	13.12
Total loans	87,975	11,288	12.83	79,545	10,047	12.63
Total earning assets	104,849	13,066	12.46	96,124	11,785	12.26
Customers' liability under acceptances	10,439	—	—	10,227	—	—
Other assets	6,412	—	—	6,349	—	—
Total assets	\$121,700	\$13,066	10.74%	\$112,700	\$11,785	10.46%
Liabilities						
Interest-bearing liabilities						
Deposits						
Domestic						
Individuals	\$ 53,112	\$5,204	9.80%	\$ 46,764	\$ 4,076	8.72%
Businesses and governments	16,822	1,322	7.86	15,862	1,208	7.62
Banks	616	52	8.44	570	29	5.09
	70,550	6,578	9.32	63,196	5,313	8.41
International						
Individuals	4,049	350	8.64	3,912	348	8.90
Businesses and governments	10,888	1,123	10.31	9,771	1,004	10.28
Banks	10,271	1,041	10.14	11,122	1,107	9.95
	25,208	2,514	9.97	24,805	2,459	9.91
Total deposits	95,758	9,092	9.49	88,001	7,772	8.83
Liabilities of subsidiaries						
other than deposits	799	68	8.51	970	91	9.38
Bank debentures	2,123	220	10.36	1,956	206	10.53
Total interest-bearing liabilities	98,680	9,380	9.51	90,927	8,069	8.87
Acceptances	10,439	—	—	10,227	—	—
Other liabilities	6,492	—	—	6,078	—	—
Shareholders' equity						
Preferred	1,124	—	—	850	—	—
Common	4,965	—	—	4,618	—	—
Total liabilities	\$121,700	\$9,380	7.71%	\$112,700	\$8,069	7.16%
Total assets/net interest income	\$121,700	\$3,686	3.03%	\$112,700	\$3,716	3.30%
Consisting of:						
Domestic	\$ 96,200	\$3,148	3.27%	\$ 88,000	\$3,080	3.50%
International	25,500	538	2.11	24,700	636	2.58
Total	\$121,700	\$3,686	3.03%	\$112,700	\$3,716	3.30%

1988			1987			1986		
<i>Average balances</i>	<i>Interest</i>	<i>Average rate</i>	<i>Average balances</i>	<i>Interest</i>	<i>Average rate</i>	<i>Average balances</i>	<i>Interest</i>	<i>Average rate</i>
\$ 8,836	\$ 704	7.97%	\$ 12,180	\$ 882	7.24%	\$13,441	\$1,094	8.14%
905	105	11.60	1,594	169	10.60	2,371	259	10.92
8,001	669	8.36	7,698	652	8.47	7,538	666	8.84
—	13	—	—	116	—	—	105	—
8,906	787	8.84	9,292	937	10.08	9,909	1,030	10.39
16,279	1,707	10.49	12,985	1,385	10.67	10,285	1,167	11.35
12,897	1,581	12.26	10,820	1,303	12.04	9,784	1,263	12.91
26,946	2,875	10.67	26,201	2,432	9.28	26,277	2,729	10.39
56,122	6,163	10.98	50,006	5,120	10.24	46,346	5,159	11.13
1,287	132	10.26	1,144	124	10.84	639	77	12.05
348	50	14.37	379	64	16.89	431	87	20.19
14,223	1,569	11.03	16,093	1,459	9.07	18,069	1,737	9.61
15,858	1,751	11.04	17,616	1,647	9.35	19,139	1,901	9.93
71,980	7,914	11.00	67,622	6,767	10.01	65,485	7,060	10.78
89,722	9,405	10.48	89,094	8,586	9.64	88,835	9,184	10.34
8,149	—	—	6,316	—	—	4,356	—	—
6,429	—	—	4,990	—	—	4,509	—	—
\$104,300	\$9,405	9.02%	\$100,400	\$8,586	8.55%	\$97,700	\$9,184	9.40%
\$ 40,290	\$2,717	6.74%	\$ 36,866	\$2,272	6.16%	\$34,584	\$2,482	7.18%
16,058	965	6.01	16,248	766	4.71	15,553	934	6.01
616	30	4.87	432	8	1.85	366	9	2.46
56,964	3,712	6.52	53,546	3,046	5.69	50,503	3,425	6.78
3,938	241	6.12	5,133	296	5.77	5,705	373	6.54
10,985	909	8.27	9,807	852	8.69	9,726	719	7.39
12,917	1,009	7.81	15,627	1,110	7.10	18,242	1,459	8.00
27,840	2,159	7.76	30,567	2,258	7.39	33,673	2,551	7.58
84,804	5,871	6.92	84,113	5,304	6.31	84,176	5,976	7.10
308	31	10.06	412	42	10.19	389	38	9.77
1,568	142	9.06	1,716	136	7.93	1,874	172	9.18
86,680	6,044	6.97	86,241	5,482	6.36	86,439	6,186	7.16
8,149	—	—	6,316	—	—	4,356	—	—
4,795	—	—	3,124	—	—	2,493	—	—
985	—	—	956	—	—	958	—	—
3,691	—	—	3,763	—	—	3,454	—	—
\$104,300	\$6,044	5.80%	\$100,400	\$5,482	5.46%	\$97,700	\$6,186	6.33%
\$104,300	\$3,361	3.22%	\$100,400	\$3,104	3.09%	\$97,700	\$2,998	3.07%
\$ 76,500	\$2,736	3.58%	\$ 68,600	\$2,563	3.74%	\$64,000	\$2,240	3.50%
27,800	625	2.25	31,800	541	1.70	33,700	758	2.25
\$104,300	\$3,361	3.22%	\$100,400	\$3,104	3.09%	\$97,700	\$2,998	3.07%

10-YEAR FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

As at October 31

(\$ millions)

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
Assets										
Cash resources	\$ 8,763	\$ 8,187	\$ 10,093	\$ 13,810	\$ 14,908	\$ 14,992	\$ 15,648	\$ 13,002	\$ 15,018	\$ 15,852
Securities	9,449	7,989	8,872	8,586	10,244	10,490	7,484	7,357	6,795	7,346
Loans										
Residential mortgages	25,733	22,530	19,502	16,184	12,510	9,939	8,281	7,502	6,631	6,528
Consumer instalment, credit card and other personal loans	16,826	15,612	14,187	11,744	10,120	9,245	8,343	7,682	7,554	7,814
Loans to businesses and governments ..	50,135	45,097	44,092	41,365	43,304	44,647	42,390	42,883	46,099	42,789
	92,694	83,239	77,781	69,293	65,934	63,831	59,014	58,067	60,284	57,131
Customers' liability under acceptances ..	10,369	10,701	9,539	7,226	5,438	4,137	3,333	3,928	3,472	2,415
Land, buildings and equipment	1,800	1,509	1,335	1,253	1,168	1,028	947	915	861	810
Other assets	2,863	3,035	2,434	2,002	1,915	1,539	1,577	1,413	2,026	1,805
	\$125,938	\$114,660	\$110,054	\$102,170	\$99,607	\$96,017	\$88,003	\$84,682	\$88,456	\$85,359
Liabilities										
Deposits										
Individuals	\$ 60,577	\$ 53,851	\$ 46,701	\$ 42,530	\$ 41,031	\$ 38,953	\$ 35,592	\$ 33,499	\$ 32,060	\$ 27,806
Businesses and governments	27,335	25,242	27,924	28,021	26,003	25,658	22,724	22,180	26,583	28,510
Banks	11,256	10,093	12,613	15,260	17,219	18,932	19,273	18,710	19,763	20,549
	99,168	89,186	87,238	85,811	84,253	83,543	77,589	74,389	78,406	76,865
Other liabilities										
Acceptances	10,369	10,701	9,539	7,226	5,438	4,137	3,332	3,928	3,472	2,415
Other	7,551	6,775	6,091	3,238	3,177	2,411	1,997	1,941	2,572	2,593
Minority interest in subsidiaries	98	98	99	10	9	9	8	5	2	6
	18,018	17,574	15,729	10,474	8,624	6,557	5,337	5,874	6,046	5,014
Bank debentures	2,299	2,118	2,000	1,521	2,068	1,749	1,336	1,120	1,121	779
Shareholders' equity										
Capital stock—preferred	1,146	1,151	954	1,012	1,025	877	875	650	354	150
—common	2,450	2,309	1,961	1,545	1,193	962	771	629	85	83
Contributed surplus	—	—	—	—	—	—	—	—	452	408
Retained earnings	2,857	2,322	2,172	1,807	2,444	2,329	2,095	2,020	1,992	2,060
	6,453	5,782	5,087	4,364	4,662	4,168	3,741	3,299	2,883	2,701
	\$125,938	\$114,660	\$110,054	\$102,170	\$99,607	\$96,017	\$88,003	\$84,682	\$88,456	\$85,359

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31

(\$ millions)

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
Interest income										
Loans	\$11,163	\$9,916	\$7,797	\$6,672	\$6,995	\$7,060	\$7,026	\$7,075	\$9,418	\$8,247
Lease financing	124	131	118	97	66	64	65	71	76	41
Securities	1,021	971	706	785	856	771	718	664	788	777
Deposits with banks	666	676	704	881	1,094	1,371	1,267	1,138	1,860	1,739
	12,974	11,694	9,325	8,435	9,011	9,266	9,076	8,948	12,142	10,804
Interest expense										
Deposits	9,092	7,772	5,871	5,304	5,976	6,564	6,605	6,513	10,151	8,952
Bank debentures	220	206	142	136	172	147	120	127	129	71
Other	68	91	31	42	38	39	39	39	40	15
	9,380	8,069	6,044	5,482	6,186	6,750	6,764	6,679	10,320	9,038
Net interest income	3,594	3,625	3,281	2,953	2,825	2,516	2,312	2,269	1,822	1,766
Provision for loan losses	420	1,380	750	900	975	685	742	772	680	219
	3,174	2,245	2,531	2,053	1,850	1,831	1,570	1,497	1,142	1,547
Other income	1,655	1,538	1,270	1,062	831	743	651	601	526	446
	4,829	3,783	3,801	3,115	2,681	2,574	2,221	2,098	1,668	1,993
Non-interest expenses										
Salaries	1,697	1,555	1,332	1,212	1,147	1,076	1,014	977	945	784
Pension and other staff benefits	192	151	135	115	107	104	92	98	91	79
Premises and equipment	594	514	463	408	377	326	294	273	256	203
Other	817	715	620	592	541	442	404	398	382	318
	3,300	2,935	2,550	2,327	2,172	1,948	1,804	1,746	1,674	1,384
Net income (loss) before income taxes ..	1,529	848	1,251	788	509	626	417	352	(6)	609
Income taxes	555	305	530	273	54	170	64	38	(188)	147
Net income before minority interest	974	543	721	515	455	456	353	314	182	462
Minority interest in net income of subsidiaries	9	14	9	3	3	2	1	1	—	4
Net income before special provision for losses	965	529	712	512	452	454	352	313	182	458
Special provision for losses	—	—	—	(800)	—	—	—	—	—	—
Net income (loss)	\$ 965	\$ 529	\$ 712	\$ (288)	\$ 452	\$ 454	\$ 352	\$ 313	\$ 182	\$ 458

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended October 31

(\$ millions)

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
Capital stock										
Balance at beginning of year	\$3,460	\$2,915	\$2,557	\$2,218	\$1,839	\$1,646	\$1,279	\$ 439	\$ 233	\$ 80
Issue of preferred shares	—	400	—	—	150	—	230	300	210	152
Issue of common shares	141	348	416	352	231	192	141	95	2	3
Preferred shares converted	—	(187)	(44)	—	—	—	—	—	—	—
Preferred shares redeemed	(4)	(11)	(5)	(5)	(4)	(4)	(5)	(4)	(6)	(2)
Translation adjustment	(1)	(5)	(9)	(8)	2	5	1	—	—	—
Transfer from contributed surplus	—	—	—	—	—	—	—	449	—	—
Balance at end of year	\$3,596	\$3,460	\$2,915	\$2,557	\$2,218	\$1,839	\$1,646	\$1,279	\$ 439	\$ 233
Retained earnings										
Balance at beginning of year	\$2,322	\$2,172	\$1,807	\$2,444	\$2,329	\$2,095	\$2,020	\$1,992	\$2,060	\$1,727
Prior period adjustment	—	—	—	—	—	—	—	—	21	—
Net income (loss)	965	529	712	(288)	452	454	352	313	182	458
Dividends — preferred	(96)	(65)	(80)	(79)	(76)	(72)	(64)	(44)	(33)	(9)
— common	(337)	(313)	(266)	(236)	(205)	(196)	(183)	(174)	(168)	(139)
Income taxes	—	—	—	(29)	(35)	52	(18)	(67)	(67)	23
Expense of share issues	—	(7)	—	—	(3)	—	—	(4)	(3)	—
Unrealized foreign currency translation gains and losses	3	6	(1)	(5)	(18)	(4)	(12)	—	—	—
Transfer from contributed surplus	—	—	—	—	—	—	—	4	—	—
Balance at end of year	\$2,857	\$2,322	\$2,172	\$1,807	\$2,444	\$2,329	\$2,095	\$2,020	\$1,992	\$2,060

10-YEAR SELECTED STATISTICAL DATA

	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
Revenue and expenses as a percent of average assets (taxable equivalent basis)										
Average assets (\$ millions)	\$121,700	\$112,700	\$104,300	\$100,400	\$97,700	\$92,300	\$86,700	\$86,700	\$88,500	\$73,500
Net interest income (1)	3.03%	3.30%	3.22%	3.09%	3.07%	2.92%	2.92%	2.88%	2.44%	2.79%
Provision for loan losses	(.35)	(1.22)	(.72)	(.90)	(1.00)	(.74)	(.86)	(.89)	(.77)	(.30)
Other income	2.68	2.08	2.50	2.19	2.07	2.18	2.06	1.99	1.67	2.49
	1.36	1.36	1.22	1.06	.85	.80	.75	.69	.59	.61
Non-interest expenses	4.04	3.44	3.72	3.25	2.92	2.98	2.81	2.68	2.26	3.10
	(2.71)	(2.61)	(2.44)	(2.32)	(2.22)	(2.11)	(2.08)	(2.01)	(1.89)	(1.88)
Income taxes and minority interest (1) ..	1.33	.83	1.28	.93	.70	.87	.73	.67	.37	1.22
	(.54)	(.36)	(.60)	(.42)	(.24)	(.38)	(.32)	(.31)	(.16)	(.60)
Return on assets	.79%	.47%	.68%	.51%	.46%	.49%	.41%	.36%	.21%	.62%
Common share information (2)										
Average shares outstanding (thousands)										
– Basic	290,243	282,586	250,677	229,331	204,221	194,643	181,680	173,537	167,660	163,421
– Fully diluted	295,945	290,113	282,231	270,826	259,042	249,475	219,713	196,585	167,660	165,018
Earnings per share (3)										
– Basic	\$3.00	\$1.64	\$2.52	\$1.89	\$1.84	\$1.96	\$1.58	\$1.55	\$0.89	\$2.75
– Fully diluted	\$2.96	\$1.63	\$2.42	\$1.81	\$1.73	\$1.82	\$1.50	\$1.50	\$0.89	\$2.73
Dividends per share	\$1.16	\$1.10	\$1.04	\$1.01	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$0.85
Common Share price (4) High	\$25.69	\$24.38	\$18.25	\$19.44	\$17.63	\$16.19	\$17.69	\$18.00	\$13.75	\$16.13
Low	\$19.75	\$16.88	\$13.06	\$12.81	\$13.75	\$13.75	\$12.44	\$11.75	\$9.00	\$12.06
Close	\$20.75	\$24.25	\$18.00	\$13.88	\$16.63	\$15.75	\$14.19	\$15.88	\$11.75	\$12.88
Book value (5)	\$18.10	\$16.16	\$15.58	\$14.20	\$17.07	\$16.55	\$15.43	\$15.03	\$14.91	\$15.40
Price/earnings multiple (6)	7.6	12.5	6.2	8.5	8.5	7.6	9.5	9.6	12.9	5.1
Dividend yield (7)	5.1%	5.3%	6.6%	6.3%	6.4%	6.7%	6.6%	6.7%	8.8%	6.0%
Return on equity (8)	17.5%	10.1%	17.2%	11.5%	10.9%	12.4%	10.3%	10.3%	5.8%	21.2%
Other information										
Common shareholder accounts	80,212	81,901	87,613	88,814	89,752	89,947	79,085	62,332	51,159	47,587
Service delivery units	1,665	1,607	1,560	1,517	1,496	1,494	1,510	1,536	1,568	1,574
Automated banking machines	3,127	2,324	1,628	1,336	1,170	898	712	574	392	220

Notes

(1) Net interest income and income taxes have been adjusted to a taxable equivalent basis to recognize income from tax-exempt sources of the following amounts:

	(\$ millions)
1981	287
1982	331
1983	225
1984	221
1985	175
1986	174
1987	152
1988	81
1989	92
1990	92

(2) Common shares were split on a 2 for 1 basis in February, 1990 and all related data has been restated accordingly.

(3) Earnings and earnings per share figures for 1987 are stated before the special provision for losses on country lending. Adjusting these figures for the special provision results in a loss of \$1.60 per share.

(4) High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.

(5) Common shareholders' equity divided by common shares outstanding at October 31.

(6) Average of high and low common share price divided by basic earnings per share.

(7) Dividends per common share divided by the average of high and low share price.

(8) Net income after taxes less preferred share dividends, divided by average common shareholders' equity.

EXECUTIVE OFFICERS

Chairman & Chief Executive Officer

Allan R. Taylor (Toronto)

President & Chief Operating Officer

John E. Cleghorn (Montreal)

Senior Executive Vice-President Retail Banking

G.J. Feeney (Montreal)

Senior Executive Vice-President Corporate Banking

B.C. Galloway (Toronto)

Senior Executive Vice-President Credit Risk Management

B.D. Gregson (Toronto)

Senior Executive Vice-President Strategic Development – Corporate

B.V. Kelly (Toronto)

Senior Executive Vice-President Strategic Development – Retail

W.A.R. MacDonald (Toronto)

HEAD OFFICE MANAGEMENT

Executive Vice-President Credit Risk Management

T.W. Bleackley (Toronto)

Executive Vice-President & Chief Financial Officer

J.E. Bolduc (Montreal)

Executive Vice-President Operations & Service Delivery

W.J. Gorman (Toronto)

Executive Vice-President Systems & Technology

J.C. Grant (Toronto)

Executive Vice-President Corporate Human Resources

W.J. McCartney (Montreal)

Executive Vice-President Economic & Corporate Affairs

E.P. Neufeld (Toronto)

Executive Vice-President Treasury & Investment Banking

P.A. Taylor (Toronto)

Senior Vice-Presidents

N.C. Achen (Toronto)
R.L. Arsenaault (Montreal)
J.T. Burnett (Toronto)
M.A. Corlett (Toronto)
H.E. Elsie (Toronto)
W.R. Fithern (Montreal)
G. Gill (Montreal)
B.P. Griffiths (Toronto)
J.A.R. Guay (Montreal)
D.M. Leahey (Montreal)
C.R. Markwell (Montreal)
T.R. McDermid (Toronto)

D.L. Robertson (Toronto)
K.A. Smee (Toronto)
E.G. Stone (Toronto)
A.A. Webb (Montreal)
D.S. Wells (Montreal)

Senior Vice-President & Chief Inspector

G.G. Tallman (Montreal)

Senior Vice-President & Treasurer

G.C. Aitken (Toronto)

Vice-Presidents

O.W. Allen (Toronto)
J.D. Anderson (Toronto)
C.A. Aubut (Montreal)
M.A. Bastian (Toronto)
S.E. Benford (Toronto)
R. Bodt (Toronto)
J.E.Y. Bougard (Montreal)
A.A. Bowbyes (Toronto)
J.K. Breen (Toronto)
P.A. Case (Toronto)
B.D. Champion (Toronto)
R.S. Chang (Toronto)
L.J. Coulas (Toronto)
D.R. Delamere (Toronto)
D.J. Dixon (Toronto)
J.D. Dixon (Toronto)
D.W. Dougherty (Toronto)
G.E. Farrow (Toronto)
E.D. Ferguson (Montreal)
R.C. French (Toronto)
W.N. Galbraith (Montreal)
D.C. Gale (Toronto)
J.J. Gannon (Montreal)
R. Gazard (Toronto)
W.H. Gilbert (Toronto)
R.S. Grant (Toronto)
B.M. Gray (Montreal)
R.B. Gray (Toronto)
D.D.E. Grier (Toronto)
P. Grierson (Toronto)
J.R. Groves (Toronto)
M.P. Harvie (Toronto)
G.R. Heckman (Toronto)
A.J. Hogan (Toronto)
A.E. Holder (Toronto)
R.M. Juneau (Toronto)
M.R. Keller (Toronto)
F.H.S. Lablans (Toronto)
T.E. Leather (Montreal)
J.E.D. Lepage (Montreal)
D.H. Loucks (Montreal)
F.G. MacDonald (Toronto)
J.K. MacKay (Toronto)
B.C. Marshall (Montreal)
A. Mirrlees (Toronto)
T.C. Morris (Montreal)
K.J. Morrison (Toronto)
I. Muskat (Toronto)
R.R. Parker (Ottawa)
R.S. Pennycook (Montreal)
M.F. Phelan (Montreal)
H.I. Philipps (Toronto)
P.G. Pitz (Toronto)
R.H. Riviere (Toronto)
R.J. Sankey (Toronto)
J.H. Shaw (Montreal)
R.L. Spicer (Montreal)
W.D. Squires (Calgary)
J.K. Talbot (Toronto)
R. Thomas (Montreal)

A.J. Thomson (Montreal)
R.E. Travis (Toronto)
J.K. Truman (Toronto)
P.H. Tucker (Montreal)
A.G. van Schalkwyk (Toronto)
F.J. Vanni (Toronto)
K.A. von dem Hagen (Toronto)
D.G. Waddingham (Calgary)
M.A. Waiser (Toronto)
R.B. Walters (Toronto)
J.C. Walz (Toronto)

Vice-President & Chief Accountant

J. Merriam (Montreal)

Vice-President & Secretary

J.E. Lawson (Montreal)

FIELD MANAGEMENT

Senior Vice-Presidents & General Managers

M.C.S. Baptista (Burlington)
C.S. Coffey (Winnipeg)
L.G. Edmonds (Regina)
G.F. Gaffney (Vancouver)
D.N. Kitchen (Calgary)
V.G. McKay (Tokyo)
D.P. Pritchard (London)
R.J. Sutherland (Halifax)
J.M. Walker (New York)

Senior Vice-Presidents

D.A. Berardinucci (Montreal)
A.R. Creasor (Toronto)
G.J. Johnson (Toronto)
R.A. Masleck (London)
J.N.T. Rednall (Sao Paulo)
M.L. Turcotte (Montreal)

Vice-Presidents

W.B. Aitkenhead (Kitchener)
G.C. Appleton (Toronto)
W.D. Bannister (Winnipeg)
D.J. Barnett (London)
J.P. Béland (Montreal)
J.J. Bergeron (Montreal)
G.R. Bernard (Quebec City)
R.G. Bernard (Montreal)
E. Bigsby (Montreal)
J.P.W. Brewster (New York)
G.R. Bright (Vancouver)
L.M. Buth (Toronto)
A.J. Charbonneau (Montreal)
W.B. Cockburn (Burlington)
A.B. Colpitts (Toronto)
C.J. Coveyduck (Halifax)
G.A.A. Dickson (Toronto)
W.R. Dinwoodie (Burlington)
S.L. Donofrio (Quebec)
J. Driedger (Toronto)
J.R.J. Fauvel (Montreal)
C.L. Fong (Calgary)
L.C. Fraser (Burlington)
W.T. Gale (Saint John)
G.M. Gartner (Vancouver)
T.P. Gibbs (Hong Kong)
L.K. Gieck (Calgary)
G.D. Gillespie (New York)
T.L. Gleason (Atlanta)
R.J. Goom (London)
W.J. Grace (Toronto)
R.F. Gulliford (Toronto)
R.G. Hall (Mississauga)
K.W. Harrison (Toronto)

R.A.R. Haskins (Vancouver)
J.M.S. Hatley (Burlington)
J.E. Henry (Edmonton)
R.J.V. Howland (Toronto)
H.A. Jacobsen (Nassau)
K.N. Kikano (London)
J.R. Klassen (Toronto)
M.G. Klingsick (London)
R.C.A. Lafontaine (Los Angeles)
J.Y. Lawrie (Hong Kong)
B.F. Legg (Singapore)
H. Lippert (Vancouver)
E.J. Lundy (Vancouver)
G.T. MacKenzie (Montreal)
A.S. MacNeill (Ottawa)
C.H. Macoun (Toronto)
C.D. Maloney (Bridgetown)
A.A. McArthur (Houston)
E.R. McCutcheon (New York)
D.R. McLennan (Hamilton)
G.A. McNish (Toronto)
J.M. Messmer (Toronto)
S.A. Middaugh (Halifax)
A.A. Mills (Winnipeg)
W.J. Mills (Toronto)
M.A.R. Mimeault (Montreal)
W.T. Moodie (New York)
F.M. Munsters (Toronto)
J.J. Murphy (Winnipeg)
W. Murray (Burlington)
P.A. Palmer (Burlington)
W.R. Penner (Vancouver)
H.A. Philpott (Regina)
A.A. Poirier (Montreal)
J.H. Prenger (Toronto)
J.N. Primeau (Tokyo)
P.J. Rafuse (Toronto)
J.T. Rager (Montreal)
J.B. Reynolds (Victoria)
A.E. Robin (Prince George)
M.J. Ross (New York)
G.A. Scammell (London)
R.C. Schneider (Calgary)
B. Schroder (Toronto)
R.F.M. Smith (Calgary)
R.E. Stanley (Toronto)
G.P. Tatrallyay (New York)
A.L. Tower (Calgary)
J.A.S. Walker (Ottawa)
D.S. Walters (St. John's)
J.A. Williams (Tokyo)
R.D. Williamson (Chicago)
E.Y.H. Wong (London)

SUBSIDIARIES & AFFILIATES*

Senior Vice-President

I.A. MacKay (Toronto)
Royal Bank Investment
Management Inc.

Vice-Presidents

T.J. Betley (Guernsey)
Royal Bank of Canada
(Channel Islands) Limited

K.A. Littlewood (Hato Rey)
Royal Bank de Puerto Rico

*Seconded Royal Bank Executive
Officers

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

Street Address: 1 Place Ville Marie
Montreal, Quebec
Canada

Telephone: (514) 874-2110

Fax: (514) 874-7197

Telex: 055-61086

Mailing Address: Royal Bank of Canada
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

STOCK EXCHANGE LISTINGS

Canada: Montreal, Toronto, Vancouver, Winnipeg and Alberta Stock Exchanges

Japan: Tokyo Stock Exchange

Switzerland: Basle, Geneva, Zurich

U.K.: London Stock Exchange

TRANSFER AGENT AND REGISTRAR

Main Agent: Montreal Trust
Company of Canada

Mailing Address: P.O. Box 890,
Station "B"
Montreal, Quebec
Canada H3B 3K5

Street Address: 1800 McGill College Avenue
Montreal, Quebec
Canada H3A 3K9

Telephone: (514) 982-7000

Fax: (514) 982-7580

Telex: 055-61286

Co-Transfer Agents (Canada) Montreal Trust Company of Canada

Halifax, N.S. 1690 Hollis Street P.O. Box 2187 B3J 3C5	Toronto, Ontario 151 Front Street West 8th Floor M5J 2N1
---	---

Calgary, Alberta 411-8th Avenue S.W. T2P 1E7	Regina, Sask. 1778 Scarth Street S4P 2G1
--	--

Winnipeg, Man. 221 Portage Avenue P.O. Box 369 R3C 2J1	Vancouver, B.C. 510 Burrard Street V6C 3B9
---	--

Co-Transfer Agent (United Kingdom)

National Westminster Bank PLC
Registrar's Department
P.O. Box No. 82, Caxton House
Redcliffe Way, Bristol, England
BS99 7NH

Shareholder Service Agent (Japan)

The Yasuda Trust and Banking Co. Ltd.
1-2-1, Yaesu, Chuo-ku
Tokyo, Japan

SHAREHOLDER DIVIDEND AND SHARE PURCHASE PLAN

Shareholders of record or beneficial owners of Common and/or of certain eligible series of preferred shares may enroll in the Plan. Participants in the Plan may elect to receive their dividends in the form of new Common Shares (stock dividends) or reinvest their cash dividends in new Common Shares. In both instances, the price of the new Common Shares is 95% of the average market price determined at the date of the dividend payment. Participants in the Plan may also make optional payments to purchase new Common Shares as frequently as once a month (on the Investment Date) for an aggregate amount up to Cdn. \$7,500 per quarterly dividend period at 100 per cent of the average market price.

Further information on the Shareholder Dividend and Share Purchase Plan may be obtained from the Shareholder Relations Department, at the Bank's corporate headquarters.

Shareholder inquiries pertaining to the status of Plan accounts may be directed to the Plan Agent, Montreal Trust Company of Canada, Attn. Dividend Reinvestment Services at the mailing address listed or by telephoning (514) 982-7666.

DIVIDEND RECORD DATES

Usually the 24th of January, April, July and October, except for First Preferred Series E, F and G. The dividend record date for the First Preferred Shares Series E is the last day for each month, and for the First Preferred Shares Series F and G is the second week of January, April, July and October.

DIVIDEND PAYMENT DATES

Usually the 24th of February, May, August and November, except for First Preferred Series E, F and G. The dividend payment date for the First Preferred Shares Series E is the 12th day of each month, and for the First Preferred Shares Series F and G is the last business day of January, April, July and October.

VALUATION DAY PRICE

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for common shares of Royal Bank of Canada, adjusted for prior stock splits, is \$7.38 per share.

DIRECT DEPOSIT SERVICE

Shareholders may also elect to have their dividends deposited directly into their savings or chequing accounts at any financial institution which is a member of the Canadian Payments Association. To arrange, please write to our Shareholder Relations Department, at the Bank's corporate headquarters.

INSTITUTIONAL INVESTOR, BROKER, SECURITY ANALYST CONTACT

Institutional investors, brokers, security analysts and others desiring financial information about the Bank should contact the Manager, Investor and Shareholder Relations, at the Bank's corporate headquarters.

DUPLICATE ANNUAL REPORTS

Some registered holders of shares of Royal Bank of Canada might receive more than one copy of shareholder information mailings such as this Annual Report. While every effort is made to avoid duplication, if securities of the same class or series are registered in different names and/or addresses, multiple copies are forwarded. Shareholders receiving more than one copy are requested to write to our Shareholder Relations Department, at corporate headquarters, so that arrangements may be made to avoid duplicate mailings.

Information concerning Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department, at the Bank's corporate headquarters.

Materials used in this report are intended to be environmentally friendly. Cover and text stocks are recycled, with a minimum of 5 per cent post-consumer waste. Vegetable-based inks have been used throughout.

PLEASE RECYCLE



La Banque Royale publie son rapport annuel en français et en anglais.

Legal Deposit, 4th quarter 1990
Bibliothèque nationale du Québec

CREDITS

Design: Taylor & Browning Design Associates, Toronto
Typography: Centre Typographique, Montreal
Printing: Bowne de Montréal, Inc., Montreal



ROYAL BANK
OF CANADA